May 1958

THE CANADIAN CHARTERED ACCOUNTANT

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Real Estate Agency Accounting and Control

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Trends and Patterns in Postwar Finance

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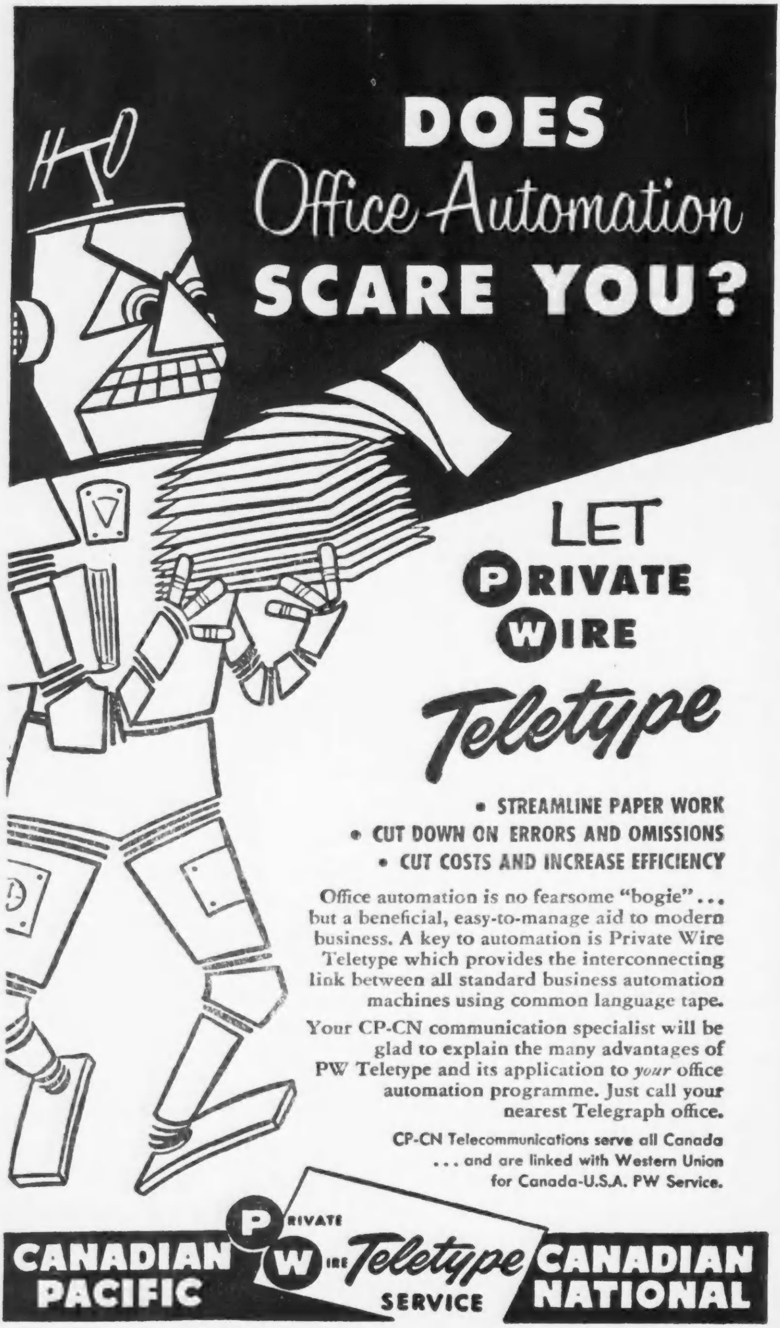
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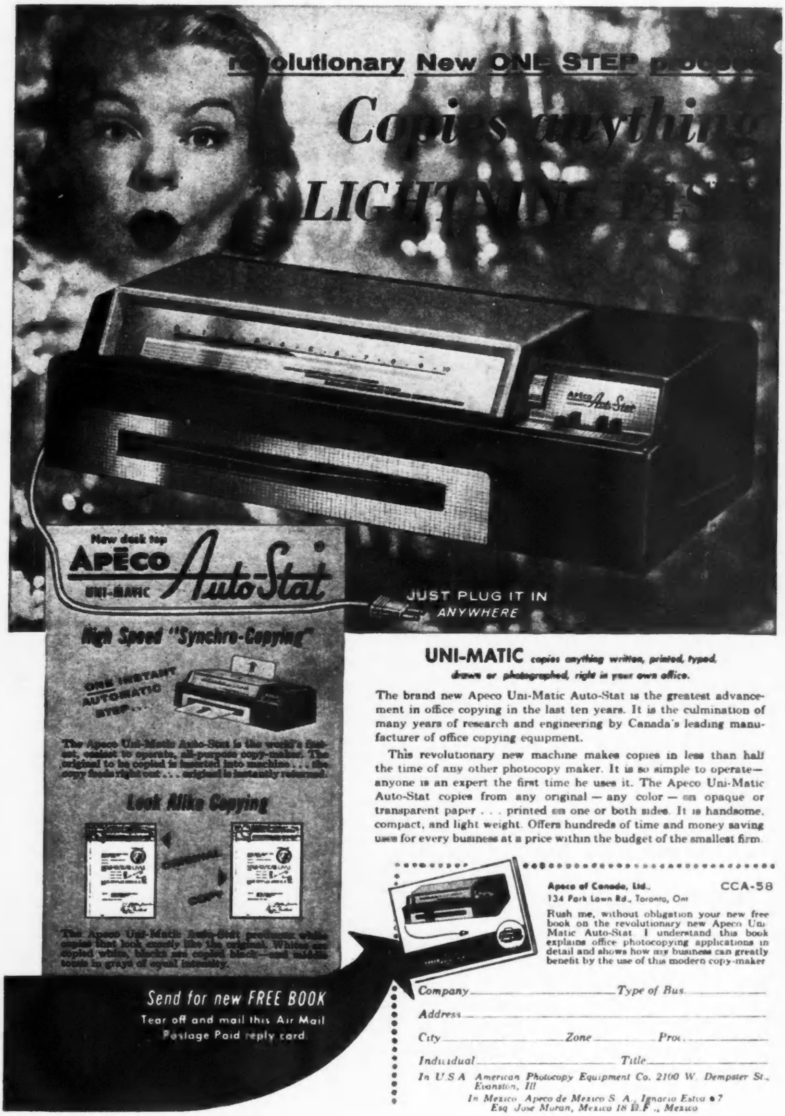
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THE CANADIAN CHARTERED ACCOUNTANT

VOL. 72, No. 5 MAY 1958

EDITORIAL

ARTICLES

DEPARTMENTS

MONTHLY FEATURES

The Canadian Chartered Accountant, May 1958. Published monthly by the Canadian Institute of Chartered Accountants. Chairman, Editorial Board, C. K. MacGillivray, F.C.A.; Editor, Renny Englebert; Asst. Editor, Jean Vale. Advertising Representative, E. L. Vetter. Editorial and business office: 69 Bloor street east, Toronto 5. Subscription rates: $6 a year; 60 cents a copy. Printed by General Printers Limited and mailed at Oshawa, Ontario. Authorized as second class mail by the Post Office Department, Ottawa. Opinions expressed are not necessarily endorsed by the Canadian Institute.

IN THIS ISSUE

W. A. EDGE (page 424)

William A. Edge, who is manager of the research department of Nesbitt, Thomson & Co. Ltd., Montreal, contributes to the series of articles which have been published in recent issues on Canada's investment business (see *CCA* Feb., Mar., Apr. 1958). In "Trends and Patterns in Post-War Finance", he reports on provincial and municipal government financing and some of the more significant developments in recent years in industrial financing. He goes on to discuss "rights and warrants" and such questions as "unit" financing for pipeline construction and secured notes used by acceptance companies.

Mr. Edge is also part-time lecturer in corporation finance and investment analysis at Sir George Williams College, Montreal, and, for the past five years, has acted as regional director of the Investment Dealers Association of Canada. A graduate of McGill University, he was formerly associated with the estates department of the Royal Trust Company, Montreal.

M. E. WRIGHT, C.A. (page 429)

Because, owing to their many other duties, the trustees of a charitable organization are often unable to give as much time to its detailed operations as they would like, and since the calibre of the staff is, in some instances, not up to that of most commercial enterprises, the responsibilities of the auditor to the trustees and to the public are of particular importance. For this reason, Michael Wright urges in his article "The Auditor's Role in Charitable Organizations" that the auditor sees that the statements on which he is reporting are as clear as possible and that he directs what influence he can to having the year's statements form part of any fund raising campaign literature. The author expresses the view that, because the auditor is often forced to take on a role almost equivalent to that of an officer of the charity, he should assist in every way possible towards its all-round improvement. The article concludes with a word of advice on the auditor's fees.

After graduating in Political Science and Economics from Trinity College, Toronto in 1952, Mr. Wright joined Clarkson, Gordon & Co., Toronto and obtained his certificate in chartered accountancy in 1956. He is a member of the Institute of Chartered Accountants of Ontario.

HERBERT HARTLEY, C.A. (page 417)

Much of the success in beginning a practice comes from cultivating people, creating confidence, extending courtesies and contacting new acquaintances. Insufficient experience and lack of determination to struggle through many discouragements are possibly the chief causes of failure. However, according to Herbert Hartley in "Problems of Starting a New Practice", there are many additional preliminary considerations such as location, timing and financial requirements which all play an important part in coping with the situation. "The best average guess seems to be that a progressive community with 50 businesses, counting even the smallest, can support a small accounting office," the author reports.

The article is built around Mr. Hartley's experience when he opened an office for McDonald, Currie & Co. in Edmonton in 1952, where he is a resident partner. He obtained his

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certificate in chartered accountancy in 1941 and, after serving for five years in the Royal Canadian Navy, took a two-year industrial appointment, and, in 1950, joined the Toronto office of McDonald, Currie & Co. He is a member of the Institutes of Chartered Accountants of Manitoba, Ontario and Alberta.

J. B. CRAMMOND, C.A. (page 433)

In "Microfilming in Business", J. Bruce Crammond writes on how business operations can be streamlined and economies made by the use of microfilming. Shortage of office space and high rental value since the war have been responsible for a growing number of companies becoming interested in microfilming records, and the author describes some of the various applications and outlines certain considerations when microfilming equipment is being installed.

Mr. Crammond draws upon his experience from both sides of the fence — as a chartered accountant and as a senior sales representative, over the past six years, in accounting and microfilming equipment for Burroughs Adding Machine of Canada Limited. He has held various appointments after he received his certificate in chartered accountancy in 1949, including that of a corporation tax assessor with the federal government. Since writing this article, he has been appointed assistant controller for Burndy Canada Limited.

J. W. DIXON, C.A. (page 444)

With today's keen competition facing the retail industry, branch stores are right in the firing line when it comes to deciding whether they are operating efficiently and avoiding unnecessary and wasteful expenditures. Management, in the administration of

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branches or departments, needs to have constant information on their activities to deal with the fundamental problems connected with efficient control and to see whether it is worthwhile to continue a branch or close it down. In "Retail Branch Accounting", John W. Dixon describes in detail how the branches of a chain store prepare the accounting data in connection with the great volume of merchandise they handle and how effectively it is used by the head office of the company.

Mr. Dixon articled with Price Waterhouse & Co. and received his certificate in chartered accountancy in 1945. He joined S. S. Kresge Co. Ltd. in 1948 as assistant to the comptroller, was appointed assistant comptroller in 1950 and is now assistant comptroller and assistant secretary of the company. He is also a member of the Metropolitan Toronto School Board.

G. C. GRAY, C.A. (page 437)

The real estate business has possibly received the greatest amount of public interest in recent years of any main sections of the construction industry. Record immigration plus the advent of the Veterans Housing Act and the National Housing Act, after the war, have made home ownership a possibility for many who otherwise could not have purchased homes. Recent publicity given to the Real Estate and Business Brokers' Act, stemming from certain violations coupled with a weakening of public confidence in the handling of trust funds, has given rise to a great many questions in the public's mind as to the control of the real estate agency business. In "Real Estate Agency Accounting and Control", Gordon Gray gathers together all the various steps necessary

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for the sound operation of a real estate agency and offers a practical guide to recording deposits and sales, holding deposits on trust and handling salesmen's earnings and drawing accounts.

Mr. Gray is comptroller and a director of A. E. Le Page Ltd., Toronto, and was previously associated with Price Waterhouse & Co., Toronto. He obtained his certificate in chartered accountancy in 1953 and is a member of the Institute of Chartered Accountants of Ontario.

EDITORIAL (page 415)

This month's editorial by Harold S. Moffet, F.C.A., deals with the development of Canadian accounting literature through which the profession is kept informed of developments that in any way affect its interests. A constant problem which faces the professional man is keeping abreast of his profession and the many new ideas and advances that are taking place in business. This is particularly true of the accountant who must thoroughly understand the problems of his clients if he is to render them a competent service. It applies equally to students-in-accounts who should have the best available information on matters that concern professional practice. With the nation's industrial growth, the need for up-to-date literature written by Canadians and geared to Canadian business methods is bound to develop and there is likely to be increasing pressure for publications along these lines.

Mr. Moffet has spent almost his entire business life in Saskatchewan but moved to Montreal two years ago as resident partner with Deloitte, Plender, Haskins and Sells. He is a member of the Saskatchewan and Quebec Institutes and was elected a Fellow of the Institute of Chartered Accountants of Saskatchewan in 1955. He serves on the Magazine & Publications Committee of the Canadian Institute.

Forthcoming Features

PENSION PLANNING
Henry G. Devitt, F.S.A.

EXPORT TRADE MAY BE THE ANSWER
Mitchell W. Sharp

ADMINISTRATION UNDER THE SECURITIES ACT OF ONTARIO
Oswald E. Lennox, Q.C.

MARKET FORECASTING
Louis J. Smitten

NOTES AND COMMENTS

New Estate Tax

A Bill entitled "An Act Respecting the Taxation of Estates", which was given first reading on January 29, is expected to come up for consideration in the new Parliament. Designed to replace the existing Succession Duty Act of Canada, the new Act will provide for the imposition of a single tax on the aggregate value of the estate rather than a tax on the transmission of property to successors, and the tax will not vary according to the relationship of the beneficiaries to the deceased. Briefly, an exemption of $60,000 is granted to the estate of a married man survived by a spouse (whether or not the spouse is the beneficiary under his will). In most other cases, the deduction allowed is $30,000. Where the $60,000 deduction applies, there is a $10,000 deduction for each child under 21; where the initial deduction is $30,000, the deduction for such children is $15,000 per child. The tax rate is graduated from a minimum of 5% where the taxable portion of the estate is $5,000 or less to a maximum of 54% on a taxable portion amounting to over $2,000,000.

Municipal Financial Statistics

The Dominion Bureau of Statistics has just issued its annual report "Financial Statistics of Municipal Governments 1956 and 1957". For the first time the report contains estimates of revenues, expenditures, assessed valuations and tax collections of municipal governments, based on a stratified sampling of municipal government operating statements and budgets. In this way it is hoped to give an earlier indication of trends in municipal financial statistics than was formerly possible. The Bureau points out that this new procedure has been made possible by developments in uniform municipal accounting and reporting and will be facilitated in future by additional improvements along these lines.

Canadian-American Relations Study

With Canadian-American relations coming under close scrutiny on both sides of the border, the Queen's Printer has just published a new study entitled "Canada-United States Economic Relations" by Irving Brecher and S. S. Reisman. This volume, one of a series resulting from the research of the Gordon Commission, covers not only purely economic influences of the United States on Canada but also its impact through international trade unions, as well as through social organizations such as universities and research foundations and through the mass communication media of press, TV, radio and films. The book is available at $4.00 from the Queen's Printer, Ottawa.

New Bulletin Binders

Concurrent with the release of Research Bulletin No. 15 on the confirmation of receivables, the Canadian Institute has brought out a new binder for holding research bulletins. Attractive and yet durable, this binder is made of green pressboard and

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fitted with two screws. It will hold up to 30 bulletins in compact, convenient form and is available at $1.00.

For a limited time, a special offer is being made of the binder and a complete set of research bulletins, including preface and table of contents, for $3.00 (regular value would be $4.25).

Bulletin No. 15 is reproduced on pages 452-4 of this issue.

Annual Conference Co-Chairmen

Aurelien Noel, C.A. and Ian Craig, C.A., both of Montreal, have been appointed co-chairmen of the 1958 Annual Conference Committee. Chairman is J. R. M. Wilson, F.C.A., Toronto. The annual conference will take place at the Queen Elizabeth Hotel, Montreal, from Monday, September 15 to Wednesday, September 17, with the Wednesday technical sessions being held at the University of Montreal.

Ontario Hansard Discontinued

With the 1958 session of the Ontario Legislature, tape recordings of debates have been substituted for the printed Hansard. Saskatchewan is now the only province to have a provincial Hansard.

Tax Foundation Heads

Henry F. White, Q.C., Toronto, has been elected chairman of the Canadian Tax Foundation at that organization's recent annual meeting. Co-chairmen are Campbell Leach, C.A., Montreal, and Stuart D. Thom, Q.C., Toronto. The Foundation now has a membership of 2400.

Ontario Public Accountants Council

The Public Accountants Council for the Province of Ontario, which consists of eight chartered accountants, five certified public accountants and two others, has elected W. J. Ayers, F.C.A., Toronto, as its president for the coming term. Other officers are: D. F. McKechnie, C.P.A., Ottawa, vice-president; C. K. MacGillivray, F.C.A., Hamilton, secretary; Hamish Macdonald, F.C.A., Toronto, treasurer.

The Council administers the provisions of The Public Accountancy Act (Ontario), including the granting and renewal of licences to practise public accounting in the province.

Eighth International Congress, 1962

An invitation by the American Institute of Certified Public Accountants to hold the Eighth International Congress in the United States in 1962 has been accepted by Mr. J. Kraayenhof, president of the Seventh International Congress.

U.S. Director of Budget

Maurice H. Stans has taken over as Director of the Budget of the U.S. Government from Percival Brundage, it was announced recently. Both men are past presidents of the American Institute of Certified Public Accountants.

American Research Bulletin

In an effort to standardize methods used to report earnings-per-share figures, the American Institute of Certified Public Accountants has issued its Accounting Research Bulletin No. 49. The bulletin recommends that where there have been significant changes in stock during a period covered by the financial statements of a company, an explanation of the method used to compute earnings per share should accompany the presentation of the earnings-per-share figures.

N.A.A. Conference

The 39th annual conference of the National Association of Accountants will be held from June 22 to 25 at

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the Conrad Hilton Hotel in Chicago. Developing the accountant's managerial abilities and six sessions on areas which are to the fore today in accounting development will highlight the conference.

Automated Historian and Skywatcher

During 1958, electronic computers are being put to two new interesting uses. At the U.S. Pavilion at the Brussel's World Fair, opening in April, an electronic history book (actually an IBM 305 RAMAC) will enable visitors to review their knowledge of world history from 4 B.C. to the present. Guests will be invited to select at random a year of history and indicate in which of ten languages they want the machine to answer. The operator will then punch the year and language code on a keyboard, and in less than a second the built-in electric typewriter will print a concise report of the major events of the year in question.

Another giant IBM computer has turned detective and now follows the tracks of Sputnik II and Explorer as they whirl their way through outer space. This electronic "eye", located at the Vanguard Computing Centre in Washington, is under the guidance of the U.S. Naval Research Laboratory and IBM engineering experts. As future moons are born, the computer will process data on them, regardless of their origin. Working at a speed of 40,000 calculations a second, the machine can compute an entire orbit in 15 to 20 minutes. It has been estimated that an expert using a desk calculator would take about one year to make the same calculations.

Army of the Helping Hand

The Salvation Army's 1958 Red Shield Appeal with a national objective of $2,250,000 opens May 1. With the rise in unemployment, the Army has had to open additional welfare centres in several Canadian cities. At the same time its vast network of regular social services continues to serve on a 24-hour basis. Give to the Army of the understanding heart and the human touch.

CORRESPONDENCE

Kingston, Ont., Apr. 2, 1958

BANKERS ORDERS

Sir: Professor Ashley's letter concerning cheque endorsements in the April issue brings to mind a procedure commonly undertaken by British banks which is largely absent in Canada. I refer to the system of so-called "Bankers Orders" for the payment of periodic fixed expenses such as monthly rents, quarterly premiums or annual subscriptions to clubs, magazines and so forth. Provided the expense falls due on a fixed day each month, quarter or year, a British bank will pay the expense for its customer if he completes a bankers order form. The bank, of course, debits the customer's account with the amount paid but does not usually charge a fee. The bankers order system remains in force until such time as the customer countermands it.

I imagine many readers would be glad to be rid of the irksome task of remembering to pay their annual subscriptions to your magazine. Consider also, Mr. Editor, the delightful prospect of receiving all your subscriptions promptly on May 1 each year from those you can persuade to complete bankers orders.

I realize that Canadian banks offer a similar service, for example, in settling bank loans repayable in instalments. My point is, however, that they do not appear to publicize the extension of this service into other fields.

B. J. B. GALVIN, C.A.

Fourth Summer School in Accountancy

McGILL UNIVERSITY, MONTREAL

July 7 through August 1, 1958

Students preparing for their examinations are again offered a four weeks period of intensive study of Accounting and Auditing principles and practice. Residence on the campus will be an essential requirement to enable students to share fully in this brief experience of university life.

Tuition will be offered in each of the Intermediate and Final fields of study for the C.A. or similar accountancy examinations. In each case the published C.A. syllabus will be followed. Classes will be held, Monday through Friday, from 9 to 12 noon and from 2 to 5 p.m. The week-ends will be left free.

The school will be directed by Kenneth F. Byrd, M.A., B.Sc. (Econ.), C.A., Professor of Accountancy, and members of the School of Commerce or visiting professors will participate in the lecturing.

Prompt application for further details should be made to the School of Commerce, Summer School in Accountancy, McGill University, Montreal.

Editorial

CANADIAN CONTRIBUTION TO ACCOUNTING LITERATURE

IN ANY PROFESSION there is a duty to be met in the provision of informative literature for its members. In the field of accounting an increasing number of Canadians are responding to this challenge.

Before the war, the profession relied to a large extent on British and American authors for its text books and other treatises on accounting and auditing subjects. Now, however, to a greater extent than formerly, Canadians are able to turn to their own literature on accounting, auditing and taxation matters. Such books are used by universities, by students in their study courses and by practitioners, and some have achieved widespread circulation. There are many areas in which business and accounting practice, whether related to commercial, institutional or governmental activity, are somewhat different in Canada than in other countries. It is therefore useful and indeed essential that there be available detailed description of these practices.

Fortunately, the Canadian Institute is able to draw, in most cases with no monetary reward, on the abilities, knowledge and experience of its members in the preparation of material, and this has made possible the contribution of much worthwhile literature at a minimum of expense. While the co-existence of the English and French languages has presented problems, the profession is indebted also to its French-speaking members for their contribution in original writings and for translating into the French language many articles and publications which otherwise would be of less use to educational institutions and others serving the French-speaking communities of the country. In this connection, the accounting professors and teachers of the Faculty of Commerce of Laval University and the Ecole des Hautes Etudes Commerciales de Montreal deserve special recognition.

Many accountants have a small library of text and reference books and the Institutes of Chartered Accountants of Ontario and

Quebec, since moving into their own buildings, both have libraries which have begun to assume quite large proportions, extending into several thousand volumes, pamphlets and periodicals. While the majority of new books still come from American publishing houses, an increasing number of new volumes are being written by Canadians and are deserving of a place in any comprehensive collection of accounting literature. Writing is an art which does not come easily to most accountants. It is arduous, exacting and, in the majority of cases, has to be done as extra-curricular work. Yet it is a most worthwhile contribution to the profession and one for which the need will increase as accountancy and all kinds of subjects relative to the profession continue to expand.

The largest collection of recorded Canadian accounting information is to be found in the 72 volumes of this journal. The first issue was dated July 1911, and *The Canadian Chartered Accountant* has been published regularly ever since, first as a quarterly, later as a monthly. The sponsorship of a magazine provided the first convenient opportunity for a continuous expression of accounting thought in Canada, but, as the scope of the profession has expanded and our members have obtained positions of responsibility in all branches of industry, commerce and administration, opportunities have become much greater for the profession to produce and for members to read books devoted to some of the newer branches of our activities.

Many accountants subscribe to one or more of the tax reporting services and the Canadian Tax Foundation fulfils a unique position through the publication of its studies on such subjects as sales tax, federal-provincial financial relations, the financing of a national health insurance scheme and studies on taxation relating to specific industries. Among the most recent contributions to Canadian accounting literature are two books written by members of the profession. Recognizing the need for a book on oil accounting, the Canadian Institute sponsored such a project by Robert E. Waller, C.A., of Calgary on this particularly complex subject and, more recently, W. G. Leonard, F.C.A., of Kingston has written "Canadian Income Tax for Accountants", which contains explanations of the Income Tax Act and Regulations and decisions of the Income Tax Appeal Board. Publications such as these serve to stimulate similar efforts by others in their respective fields of interest and knowledge, and we are indebted to all those who have accepted this challenge and enriched Canadian accounting literature.

It is the responsibility of members of the accounting profession to produce and make available the fruits of their collective knowledge and experience. By so doing, they not only provide a service to their fellow members, businessmen, students and educational institutions but, in addition, they bring credit to, and increase understanding of, an important and growing profession.

Problems of Starting a New Practice

HERBERT HARTLEY

IN STARTING a new practice, a chartered accountant should aim to provide as high a level of service as possible and in sufficient volume to render him a reasonable profit as soon as possible. A noted mining engineer once said, "The right men in the right area are bound to produce results—in time." The only real unknown is time.

Preliminary Considerations

Choosing a Location

It is a prime requisite that a new practice should be located in a community which is growing, particularly in the economic sense of the word.

A sole practitioner will likely choose a location where he has lived or practised previously, but that is not always the case. Before selecting a certain community over others, both the practitioner and the national firm must make some important inquiries:

1. What is the population of the community and its subordinate areas?
2. Is the community growing faster than others of comparable size?
3. Has the community a potentially large growth and what is its attitude toward growth?
4. Is the community prosperous and how does it compare with the nation as a whole?
5. Is the community highly industrialized and are there many small businesses or are there just a few large ones?
6. Has the growth in the past been steady or erratic?
7. Is employment steady, seasonal or unpredictable?
8. Can a specialized knowledge of any particular industry be used to advantage?
9. Are more accountants required?
10. What is a conservative estimate of the yield for the above requirements?
11. How many firms and persons are presently engaged in the profession?

Some of these questions can be readily answered, but the last three pose extremely intriguing problems, and some interesting observations or guesses have been made as answers to them.

Although the figures may now be somewhat out of date, gross returns in accounting fees per capita of population have been estimated at from $1 to $5, depending on whether the community is industrial or non-industrial, progressive or settled. It is esti-

mated that a community of 5,000 people would produce $25,000 in fees, which would support a unit of one principal, three other accountants and a secretary-typist. These figures, however, probably cannot be applied indiscriminately to larger communities.

Opinions vary as to the number of businesses required to support an accounting office, but the best average guess seems to be that a progressive community with 50 businesses, counting even the smallest, can support a small accounting office.

Despite the fact that the majority of successful accounting practices have been commenced in the practitioner's home town or in a town where he is well known, it is only prudent to mention that it is sometimes difficult to command a healthy respect for one's professional ability among lifelong friends. Also it may be difficult to maintain a professional fee scale with people of many years acquaintanceship. It has been borne out all too often that there is a difference between polite assurances of goodwill and real assignments.

Although intimate friendships may not always be conducive to good business relations, it is necessary to recognize the very real value of friends and contacts in a community. One has only to compare the way of the struggling small businessman with that of the new representative of a large national firm of financial agents to realize how business friends can help.

FINANCIAL REQUIREMENTS

Some time ago in the United States a survey was conducted of public accountants beginning a practice with a one-room office with a typist and in a community with a population of approximately 20,000. In the briefest general terms, the consensus was that it would take about 18 months for the practice to become self-supporting and that a young accountant with a wife and one child would need capital somewhat as follows:

Personal living expenses	$ 6,000
Operating expenses	2,600
Office equipment	900
Personal and business contingencies	1,500
	$11,000

Again, these figures appear to be a little low for a larger community and may be slightly out of date.

TIMING

Even the time of year at which a new office is opened can be important to the accountant who starts with few or no clients and limited capital. In a small office, the majority of new clients seem to be obtained between January 1 and, say, April 30. Therefore, it has been said, an accountant should try to be well settled in the community by the beginning of the calendar year.

Some Early Problems

COMMENCEMENT

One of the first problems is the location of suitable office space, and in a rapidly growing community this may be difficult. If possible, space, or even desk room with perhaps stenographic assistance, should be obtained in some office where the nature of the work is compatible with the practice of public accounting. A law office is ideal and combines the advantages of dignity, low overhead and valuable connections. A sole practitioner may find the problem of acquiring suitable office space and attendant facilities more acute than the branch representative of a larger firm. In other words,

"He needs it more and can afford it less."

Once having found a place to sit and someone to answer the telephone when he is out, the practitioner begins to experience the essence of the situation, i.e. "business".

NEW BUSINESS – REFERRED

For the representative of a national organization, his first clients in the new community may well consist of assignments referred to him from other branches of the firm. He must be very thankful for referred business, as it carries much of his financial burden. However, it presents special problems, such as the following:

1. A lone practitioner developing his own field is able to forecast with some certainty the work in sight and judge his staff requirements accordingly. On the other hand, when assignments requiring immediate attention come from several other offices of a national firm at the same time, the one-man office can be snowed under with little or no warning.

2. Referred business, particularly if it is in the nature of an examination of some particular phase of operations of a local branch office or other work for non-resident principals, has limitations in helping the practitioner expand his practice locally. A satisfied customer is always important, but satisfaction in far away cities is not necessarily advertised in the locality of the practitioner.

NEW BUSINESS – POTENTIAL

Generally speaking, to develop a practice in a community, it is necessary to do more than attend to referred business. Someone must bring to the attention of the local market that the practitioner is available, willing and, above all, able to attend to their requirements. Beyond the accepted advertisements, how is this done? Remember it is a new community with no existing satisfied clients to spread the word. The answer may well be that ability, integrity and experience being equal, the accountant who knows the most people and is *most favourably known* by most people, will have a better opportunity to build a larger clientele in a given time. In his efforts to impress people, however, he should be cautious. For instance, what kind of lawyer do people select to do their business: is he the back-slapping "life of the party", or is he a serious, conscientious and discreet citizen?

NEW BUSINESS – PUBLIC RELATIONS

The American C.P.A. Handbook has published a list of activities under the heading "Public Relations". These activities, which are the result of a survey, are considered by a substantial number of practising accountants to be definitely helpful in building a practice. They are listed here in order of general importance:

1. The development and maintenance of pleasant and helpful relations with lawyers. The practices of law and of accountancy are very closely related, particularly in tax matters, and the lawyer is frequently in a position to refer accounting matters to the accountant whom he knows and in whom he has confidence.

2. The development and maintenance of helpful relationships with bankers and other credit executives. The accountant should use every opportunity to discuss with them financial statements, the value of an audit and related problems.

3. Joining and taking an active interest in the affairs of a civic club. In most communities many business and

professional men belong to a civic club such as Rotary, Kiwanis, etc. One purpose of such clubs is to help members become acquainted with each other. This factor enables the accountant to meet a substantial segment of the business community.

4. Joining professional and trade associations and taking an active interest in the problems of those groups. In many communities there are tax associations, accounting and credit groups, and other organizations made up of men whose daily problems are allied with accounting and tax practice. Here again the accountant is provided an opportunity to build his acquaintanceship rapidly.

5. Engaging in definitely useful and recognized community service, such as participating in fund-raising campaigns. He need not necessarily solicit funds, but might use his talents in preparing statements and budgets, etc.

6. Joining at least one reputable social club or organization and working as effectively as possible on any job that may be assigned.

7. Keeping in constant and purposeful touch with all friends and acquaintances along lines of mutual interest. The accountant should endeavour to keep his friends and acquaintances informed, within the limits of courtesy and good taste, of his professional progress and achievements. He should display an equally sincere interest in their business successes.

8. If the accountant has the ability, he should accept speaking engagements before local groups. He need not be a polished orator, but he should develop ability to present points in a pleasing and concise manner. If possible, such speaking engagements should centre around tax problems as most adult audiences are vitally interested.

9. If the accountant has some writing skill, he should devote some time to professional writing. Articles not only tend to bring the accountant's name before the business public, but increase his professional qualifications because of the research involved.

Much of the above can be summarized under the simple heading of being *a good citizen*, and in any community one should be grateful for opportunities to be of service. Our friends often realize this, and requests to serve in community activities should be welcomed rather than avoided. One must exercise some caution and selectivity, however, as a tremendous amount of time can be spent on these activities.

Sources of Clients

After an accountant has exposed himself to the community for a time, where do his first new clients come from? It is scarcely possible to enumerate all the ways in which a client can be obtained. Like gold he is "where you find it", although probably the accountant will be recommended to him by someone. All the authorities say that a satisfied client is the most important source of new business.

Some additional observations on sources of actual clients are:

1. *Reciprocity* – Everyone the accountant does business with is a possible client. The contractor who builds his house, the decorator, the plumber, his doctor and his lawyer often become good clients. He must realize that favours he does in business are not forgotten and that lawyers and insurance men, etc., to

whom he refers business usually hasten to return the compliment.

2. *New industries* — In an expanding community, the accountant commencing practice will find that new business starting up will probably be the best source of clients. Sometimes their connections have already been made and this applies equally to new arrivals in the city, but the alert accountant can find ways of getting there first. In national firms, great assistance can be given by other branches in directing prospective clients to the local branch.

3. *Unsatisfactory services of other accountants* — Very often a businessman will become dissatisfied with his firm of accountants, and a new practitioner may be recommended for the position. Caution is required though, as in many cases this type of client is unsatisfactory to him as well.

4. *Advertisements for auditors* — Municipalities, etc. frequently advertise for auditors in local papers or other publications.

Performance

Now that he has some business, the accountant faces the problems of doing the work. Getting business and doing the work are two separate functions, but depend on each other and one cannot outrank the other. A knowledgeable accountant of many years' experience says it takes two good men to start a practice — "One to get the work and the other to do it."

In a frantic search for new clients, there is a real danger that the most important functions of the successful professional accountant can be overlooked or postponed too long. If sound administration and organization are not given priority, the whole production schedule or quality of the professional product breaks down. Proper internal organization is as important to a small firm as to a large one; there will come a point where the small, well-organized firm can outstrip in performance and profits the larger loosely-knit unit.

Sometimes the accountant cannot see the woods for the trees. He is anxiously searching for new clients when his existing clients require much more and better service. This may be referred to as intensive cultivation of the client. Particularly with a new client, his first aim should be to see that the value of the work exceeds the cost to the accounting firm by as much as the firm can possibly afford. A vigorous and sustained demand is generated when the value of the work done greatly exceeds its cost. Those who succeed and grow are those who put out the most value. The strategic time to establish in the mind of the client that he has acquired a service of superior quality and long-lasting worth is at the start.

What kind of people or businesses are likely to be the first clients? Whoever they are, the majority of them will be small. Probably the greatest single adjustment a practitioner used to a large practice has to make is that he will have to get used to small assignments, small staff and small fees.

While occasionally the accountant starting in practice does get snowed under, not everyone has this fortunate experience. The usual pattern is to accept almost any job, however unremunerative, until sufficient volume is obtained to operate efficiently with additional staff. Sometimes it may be necessary to turn down work just because one has not the staff available. Every effort must be made not to turn down desirable clients,

but some judgment is required in accepting clients even though they may be quite respectable. A bookkeeping job may normally be most welcome but can be an unrewarding burden under certain conditions. Furthermore, some people in any community let their records fall into neglect. Before accepting such an assignment, an accountant should realize the responsibilities and the time involved and, most important, whether the client has any idea of the cost. A job like this can devour the accountant's staff and subject him to heavy responsibilities. It might be better to decline or to recommend that the client get a good permanent bookkeeper as soon as possible.

Fees

While it may be the practice of many large firms merely to multiply the hours on the job by the rate of the individual accountant involved, this system cannot be adhered to rigidly in the small office in the small community.

First of all, the staff is small and the question arises as to whether it is wise to charge the client for a senior man's full time when he has done a large amount of junior work or, conversely, to charge junior rates for senior time. It has been rather surprising, however, to find on numerous occasions how close the cost of a junior man's total time compares with that of a senior. In all possible cases, a sum commensurate with the accountant's professional ability should be billed even at the risk of losing clients. In this way, he will do a better job for those whom he retains and will boost his own feeling of independence.

When commencing practice and accepting marginal businessmen as clients, thought must be given to the collection as well as the charging of fees. There is an advantage in billing the client monthly or at least quarterly. This will assist in financing and will help in detecting bad accounts early. (It is hoped the latter will be few.)

Staff

Up to this point the new practice may have been housed in the office of a lawyer friend, but quite soon it will be necessary to set up a separate office and staff. Office space is one thing, but the service of a full-time stenographer is something which will probably take some time to utilize fully. A practitioner might take someone in with him to help defray expenses and make use of the "office assistance" available. However, a receptionist and someone to answer the telephone are necessary, and sooner or later the additional overhead expense will have to be accepted. A stenographer who knows bookkeeping is a great help, and the value of mechanical dictating equipment will also be evident.

Next, it will be necessary to obtain audit staff. In a venture such as has been described, it would be of tremendous assistance to be able to obtain, when needed, a bright student of about intermediate standing. The problem is that staff may be required suddenly and it is almost impossible to find trained students immediately. One accepts the responsibility for training staff, and a student in a small office has often unusually good opportunities to learn. The fact remains, however, that the man on his own will have special problems with untrained help, particularly if circumstances such as travel necessitate the

student working at times with only intermittent supervision.

General

Some points of general interest, should be mentioned:

1. Alone, it is very easy to get out of touch professionally. The general "airing" which a problem can get in a larger office is very stimulating, particularly in tax work. The lone practitioner should subscribe to a good tax service and also do some stimulating accounting reading.

2. A man on his own is usually very much aware of the special responsibilities of sole proprietorship. Apart from the self-discipline required and the necessity of making most decisions alone, there is the constant pressure, at least at first, of having to be there all the time. Clients will not wait for the man who is not available, and such things as holidays are liable to be forgotten with possible detrimental effects on health, etc.

3. At some stage it is desirable for the practitioner to absorb or ally himself with another practice. Goodwill, staff, clients, overhead and other important matters are involved. However, this is a different subject and will not be elaborated on in this paper.

Conclusion

A recent true experience illustrates many of the points made in this article.

One Saturday morning, a bank manager rushed one of his clients into the office of the writer. A reorganization was in process and a new company had to be formed, with consideration given to various interests concerned as well as to tax matters. The client was from another city and was returning that weekend. The matter had to be attended to at once. It pointed up the value of friends who are in a position to send along business and are actively trying to do so; it also showed the need for being available (Monday would have been too late). We discussed factors involved and were asked to recommend a lawyer who would produce the desired incorporation in short order and give additional expert advice on certain other problems. Thus we were put in a position to do a favour for our legal friends.

We were fortunate in being appointed auditors of the new company in due course. We set up the books and became involved in many extra activities. We have prepared budgets, monthly statements, and share valuations; we have attended directors' meetings and corresponded with government departments. The company then asked us to perform considerable detail auditing. In other words, we were cultivating the client intensively.

The next development was that the client recommended us to one of his main suppliers, proving again that a satisfied client is the best advertisement.

A month or so later the lawyer introduced us to one of his clients who wanted a special investigation of a company he had invested in.

Now the supplier to our original client seems happy with our services and is considering incorporation. We may well be able to direct further business to the legal profession. The last report from the lawyer is that there may be another investigation coming our way. This can go on indefinitely as long as we continue to make good friends and satisfy our clients.

Trends and Patterns in Post-War Finance

WILLIAM A. EDGE

To ESTABLISH a pattern in public financing from recent trends, it is perhaps best to turn back the pages to the period of World War II, and to note that the only real major financing at that time was done by the federal government which raised over $12,200 millions through the sale of victory bonds.

In 1941 the provincial governments expressed the intention of strictly limiting bond financing for the duration of the war, and to a lesser extent the municipalities followed suit. With the conclusion of the war, the federal government withdrew from the capital market, and then there developed a substantial business of refunding outstanding issues at lower rates of interest. Such was the character of most of the bond financing which came to the market in 1945-46. However, soon these refunding possibilities became exhausted and the character of offerings began to change.

Canada Savings Bonds

Victory bonds were superseded by Canada savings bonds, the latter in themselves being rather unique. As is generally known they differ from other bonds in that holders receive full face value – plus accrued interest should they be cashed at any time – whereas victory loan and other government bonds fluctuate in price. These savings bonds are familiar to all types of investors, and the federal government has continued to use this form of financing annually in much the same manner. In general, the level of interest rates sets the stage for a volume pattern in financing. If rates are high capital costs will also be high. Additional financing may be postponed until rates return to a lower level, or else some other form of financing will be employed. However, to indicate the fluctuation in interest rates or government carrying charges the first five savings bonds series bore interest at 2¾%, but in 1951 when the 6th series appeared the rate was raised to 3½%. Since then, interest rates for the later series have been both lower and higher. The most recent issue, the 12th, shows an average interest yield of 4.46% per year if held to maturity. This latest series is also the first series whereby an individual may purchase bonds up to a $10,000 limit as compared with a $5,000 limit set for previous issues and shows a new maximum amount available to any one individual.

Turning to the Canadian treasury bill market as a means of Bank of Canada or federal government short-term financing, it is best said that when the Bank of Canada began operations in 1935 a short-term market, outside of the banks, was practically non-existent. However, in order to create a market for the temporary employment of cash funds and following a revision of the Bank Act, this money market began to function on June 14, 1954. The banks then made available to certain investment dealers who had re-discount facilities with the Bank of Canada a new category of call loans, to be secured by treasury bills or Canada bonds maturing within three years. The money market has been functioning ever since, and most readers are likely to be familiar with the method used in tendering for treasury bills now being carried out weekly on a "Thursday-morning" basis. Thus the cost to the government of such borrowing is determined on a competitive basis with the average rate being set by the market.

A relatively new trend in the Canadian bond market has been the use of the "non-callable for refunding" feature. Apart from the savings bond series which are all non-callable, the Government of Canada brought out a $300,000,000 3% issue in 1953 and another $400,000,000 3¼% issue in 1954, both of which were non-callable to set a pattern distinct from previous loans. Provincial and municipal governments too have recently brought out similar issues, such as Province of New Brunswick 5% sinking-fund debentures non-callable before maturity March 1, 1962, and the City of Ottawa 5% debentures to mature January 1, 1958 to 1972.

Marketing Issues in the U.S.

As evidenced when the spread in interest rates becomes great enough, certain Canadian provincial and municipal governments turned to the United States to market their issues. Traditionally interest rates are lower south of the border and following a consideration of exchange rates borrowers tend to turn where they believe carrying charges are the least. There is, however, a certain dollar value exchange uncertainty about placing Canadian issues in the U.S.; if the U.S. dollar returns to a premium over the Canadian then, of course, Canadian borrowing costs could greatly increase.

Two examples of Canadian issues marketed in the United States in December 1956 are the $25 million province of Saskatchewan 3¾%, Dec. 15, 1957 and the Quebec Hydro-Electric Commission (guaranteed by the Province of Quebec) $50 million 3½%, Jan. 1, 1981. Recently the City of Montreal decided to come to the Canadian market for its $18 million 5¼% sinking fund debenture issue, although until the last moment the city's executive committee decided to maintain its registration with the U.S. Securities Exchange Commission. Such action was prompted by the fact that the Canadian market has improved since the middle of November. The issue is non-callable prior to 1967 to show further evidence of that feature.

Forms of Municipal Financing

Since there are over 4000 municipalities in Canada, the number of municipal issues has been growing. This trend may be expected to continue as the country's population increases and many more projects are undertaken. Capital expenditures by municipalities have been estimated

at $1.5 billion a year by 1980. In brief, Canadian municipalities issue two types of debentures – the sinking fund and the serial. The former derives its name from the means provided for repayment of the principal borrowed. The latter may be straight serial or serial annuity bonds. With straight serials an equal amount of principal is repaid each year and consequently reduces the annual cost as interest on the outstanding principal lessens. On the other hand, with serial annuity bonds the amount of principal repaid each year increases progressively enabling the combined sum to remain constant and thus avoid the high costs in the early years of the issue.

During the past decade, at least, the municipal financing trend has been toward the serial issue because of the disadvantages to be found with sinking fund bonds. These disadvantages may be taken to be the estimated earnings (uncertain) which will be required to meet the annual sum to be invested in the sinking fund and the finding of suitable securities in which to invest the annual instalment. These securities should mature about the same time as the bonds they are to repay, but if they do not, heavy losses can occur by having to sell these investments before they mature in poor market conditions.

Internal Industrial Financing

To turn to the industrial field, a major portion of all funds which are invested by corporate enterprises in fixed capital goods and in inventories comes from internally generated savings and credit. During World War II many companies retained profits, partly under compulsion, on a large scale and no new volume of corporate borrowing was created since the costs of plant expansion for war production were borne mainly by the government. In the decade 1946-55, corporate investment in new fixed capital goods and in inventories amounted to nearly $24 billions.[1] In the same period, retained profits and depreciation allowances of corporations totalled over $18 billions or about three-quarters of corporate investment. As a source of internally generated funds, depreciation allowances have been more than half as large again as undistributed profits. In the years 1944-1949 special depreciation was allowed certain industries in order to promote reconstruction, and again since the Korean War certain defence industries have been able to claim special rates of depreciation.

According to Bank of Canada statistics, the net income available for dividends increased greatly in the years 1947-50 for nearly all classes of industry while the proportion paid out in dividends has decreased in most cases. The actual dividends paid have increased, of course, but not in the same ratio as the net income. From 1952 to 1956, dividend payments by Canadian corporations increased from $571.2 million to $738.08 million, or by 29.2%. However, during the same period, net profits of these companies augmented even more, from $1,292 million to $1,843 million, or by 42.66%. As a result of this the payout ratio for 1956 is only 40.05% as against 44.21% in 1952.

Increase in Unsecured Debentures

In the industrial field perhaps the most significant development in the

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[1] *Bank of Nova Scotia Monthly Review*, Sept. 1956.

realm of debt securities is the increased use of unsecured debentures instead of mortgage bonds. The unsecured debenture need not necessarily be a weaker instrument as proper provisions can be made to give it a priority position that is equivalent for all practical purposes to a mortgage bond. Foremost of these provisions is the so-called "Negative Pledge Clause" which simply prohibits the securing of any other debt without equally and ratably securing the debenture, thus effectively blocking off any other creditor from getting in ahead. Debentures also contain other protective measures such as a limitation on additional funded debt — usually a set formula which limits debt to a percentage of net tangible assets. Also a company may covenant to maintain working capital at a minimum level. Limitations on dividends and restrictions on sale and lease back of major properties may also be found.

Comparing briefly with Canada savings bonds, it is interesting to note that the graduated interest rate principle also became evident in one instance in the industrial field in September 1957 when Petrofina Societe Anonyme came to market with a $25 million (U.S.) 5½-7½% debenture issue bearing interest rate increases of ¼% as it approaches maturity.

Of increasing use in recent years have been the subordinated debentures and particularly as a convertible security. This in a sense is really a glorified preferred stock but from the issuers' point of view has the advantage of its interest being deductible for tax purposes while preferred dividends are not. Preferred stocks like these debentures have been changing characteristics and carry limiting factors but also carry other provisions such as sinking funds, market purchase funds and conversion or participating features.

Unit Financing

Certainly a great deal of pipe line construction has been accomplished through the use of "unit" financing. Perhaps the most familiar are Westcoast Transmission and Trans-Canada Pipe Lines. Following lengthy and difficult preliminaries the latter successfully financed its well-publicized project early in 1957, as some $81 millions of units were marketed in Canada, and some $31 millions in the United States. The Canadian "unit" consisted of a $100 5.85% subordinated debenture due 1987 and five common shares, priced at $150. According to the original offering, three shares were transferable separately on and after June 4, 1957, or the date on which the company first issued first mortgage pipeline bonds, whichever date was later, and the remaining two common shares to be transferable at the option of the company at any time on and after November 1, 1958, and in any event, prior to January 1st, 1960. The first three common shares have now been transferred and the security is presently trading as a "partial unit", i.e. the debenture and two shares. The original Westcoast Transmission unit, which consisted of a 5½% subordinate debenture, series "A" and three shares, is split, and debentures and shares are now trading separately.

Secured Notes

A further recent trend has been the evidence of secured notes used by the acceptance companies. This secured debt consists of long-term borowings and funds secured on the short-term

money market. This debt is recognized by the same kind of document, namely a collateral trust note which is secured by the deposit of wholesale and retail conditional sales contracts purchased by the finance company. These companies have been highly successful in the use of these largely because of the high degree of liquidity of their assets even though rates of interest may be varied from time to time. Acceptable collateral for Industrial Acceptance Corporation Limited secured notes due Sept. 15, 1959-63 consists of purchasers obligations, none of which are in default of 90 days and which have a total value of at least 112½% of the amount of the aggregate unpaid principal of outstanding notes of the company secured thereunder.

Rights and Warrants

No article on financing trends would be complete without at least the mention of "rights and warrants". Both are options but differ in their timing with the former being the shorter call. For example, most are familiar with Bell Telephone rights which incidentally go back to 1922 when shareholders were allowed to subscribe to new stock on the basis of one new for five shares held. Thus rights could hardly be called a new trend but rather a continuing one which has grown in volume and diversification to include the banks, steel companies and many others.

Warrants are sometimes issued as a bonus with bonds or debentures and are really an inducement to assist in the sale of the issue. They normally accompany bonds during periods when common shares are more attractive to private investors than are senior issues. Many companies have been financed with the aid of warrants but a particular pattern was followed by uranium companies when Gunnar Mines brought out its 5% S.F. debentures in 1954. These debentures carried stock purchase warrants entitling holders to purchase, after April 1, 1955, 20 shares of common stock for each $500 principal amount at $10 a share to and including October 1, 1956, at $11 a share to and including October 1, 1958, and at $12 a share up to and including September 30, 1960 when the warrants expire. Many other uranium issues followed, using this same method of financing.

Although all kinds of variations exist both in the make-up of securities and in their use, financing trends are really set by the market. If there were no buyers there would be no new securities, and Canada's future capital expansion and development program would be greatly retarded, to say the least.

The Auditor's Role in Charitable Organizations

MICHAEL E. WRIGHT

"God helps those who help themselves", is an old maxim. "The Government helps those who don't", is somewhat newer, but with the growing mania on the part of the Canadian population for social security, it is becoming equally valid. In spite of the intensified part played by governments in social welfare, the function of charitable organizations within the community is still far from outdated. In fact they continue to grow and multiply as their need becomes increasingly pronounced. Since they play such a valuable part in community life, the relationship between the auditor and the organization is a vital one to all chartered accountants.

The point which should be emphasized first is that, from an auditor's point of view, a charitable institution is exactly the same as any profit-making concern. The problems are very different, it is true. But so are they different between, for example, a steel manufacturer and an investment house. In both of these, however, as in the charitable institution, the function of the auditor remains the same, namely, by carrying out appropriate auditing procedures, to make such an examination of the financial statements of the enterprise as is necessary to have an informed opinion as to their fairness and, having done so, to express his opinion to the shareholders, partners or trustees as appropriate. In addition, the auditor may be called upon to offer advice to his clients on matters ranging from intricate questions of accounting technique to problems related only in the broadest sense to the field of accounting and auditing. For all his assistance and efforts on behalf of his client, the auditor charges a fee. It is from these three aspects, that of auditor, adviser and fee collector, that the role of the auditor in charitable organizations will be discussed.

Audit Function

While it is true that in the technical sense the audit of a charitable organization is the same as any other, there is a general change in emphasis which it is important to keep to the fore. This new emphasis is on caution. A number of factors contribute to its need. In the first place, money is donated to charitable organizations in the full expectation that it will be spent for charitable purposes. Great care should be exercised by the auditor to make sure that this is the case. While he is not acting directly for

the public, the auditor has a moral obligation to satisfy himself that expenditures are within the objectives of the association or, if not, are clearly shown for what they are in the financial statements.

This care must be increased, furthermore, because of the nature of the trustees and staff of a charity. Because the trustees are normally extremely busy in other fields they do not spend as much time on the detailed operations of the charity as would be normally expected of the executives of a business concern. This is a weakness in internal control, and in many cases the auditor will find it necessary to increase the extent of his tests of transactions because of it.

In addition, the administrative staffs of some charities are not up to the calibre of the staffs of most business organizations. Frequently the staff of a charitable organization includes voluntary or low-paid, part-time help. This has the possible advantage of saving money, but efficiency and accuracy may be sacrificed. Once again, the auditor should be aware of this at least potential weakness and his verification procedure should be extended accordingly.

One area in which added care on the part of the auditor is most important is in the verification of donation receipts. Even at the best of times, control over these receipts is somewhat less than perfect and often it is highly unsatisfactory. The principal difficulty the auditor encounters is not to determine that all reported donations are correctly recorded but rather that the donations are all reported in the first place. Obviously, the auditor cannot accompany each canvasser to establish that receipts are written out in every instance but he should make sure that the system established to guard against misappropriation is the best available in each particular circumstance. If it is not, he should recommend such improvements as he may consider necessary.

In some cases, the trustees will be unwilling to institute the controls the auditor recommends to guard against such misappropriation. The auditor might suggest, for example, that canvassers should solicit donations in pairs. This might be a reasonable suggestion for an auditor, but it is also reasonable for the trustees to reject it especially if canvassers are in short supply. They might easily prefer to take a chance on fraud on the part of the canvassers in order to double the area from which donations could be solicited. While this is a valid position for the trustees to take, it is then up to the auditor to consider whether he is in a position to express an opinion on the correctness of the book figure for donation receipts.

The final decision as to whether his opinion should be qualified must always be made by the individual auditor, and there are two distinct viewpoints on this question. One school believes that, particularly for the smaller organizations, adequate control over donation receipts is practically unattainable. Consequently, it argues, the auditor's report should be qualified far more often than not in order that his position as auditor may be made clear. The qualification, however, should be worded in such a way that it will not appear as a derogatory reflection on the administration of the charity.

One possible form of such a qualified report is as follows:

TO THE TRUSTEES,
THE CHARITABLE ASSOCIATION.

We have examined the attached statements of receipts and disbursements for the Charitable Association for the year ended December 31, 1957. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Donation receipts as set out in the attached statements are as shown by the books and have been checked by us to bank deposits. Because of their nature, however, these receipts are not susceptible to a complete check and have not been otherwise verified by us.

In our opinion, subject to this limitation on the scope of our examination, the accompanying statements of receipts and disbursements present fairly the results of the Association's operations for the year ended December 31, 1957.

CHARTERED ACCOUNTANTS.

The other school disagrees with this line of argument. It objects to the implication in the report set out above that donation receipts are uncontrollable by their nature and believes that controls may be established which would make the book figure for donations just as reliable as, for example, the amount shown for sales in a manufacturing company. It would qualify reports where necessary, but its qualification would contain the implied criticism that the accounting controls of the charity were not as good as they might be. Since this form of qualification is considerably more serious than that contained in the example, it follows that it would be used more sparingly.

Lest the writer become embroiled in unending arguments on this subject, he takes the position of Sir Roger de Coverley that "there is much to be said on both sides".

Statement Presentation

In all but the largest of charitable organizations it is common practice for the auditor to prepare the financial statements as well as verify them. In this field particular care must be taken to ensure that these statements are in no way misleading. The July, 1957 issue of *The Journal of Accountancy* contains a statement by the California Society of Certified Public Accountants on the subject, and it should be reviewed carefully by all C.A.'s who accept the position of auditor for a charitable organization. The purpose of financial statements of a charity, according to the statement, "is to clearly furnish reliable information on the use of contribution income". This may be accomplished, the statement continues, through the strict allocation of revenues by source (bequests, campaigns, etc.) and expenses by function (charitable services, fund raising, etc.) based on sound accounting principles. This suggestion is not novel and perhaps the only unusual aspect of it is in the application of sound accounting principles to the financial statements of charitable organizations. But this should not be unusual. Each year vast sums of money are contributed to charitable causes. Surely the contributors are entitled to a full explanation of how their money is spent. To

give one example, especially for large and continuing charities, comparative balance sheets and income statements should replace the more common but less informative statements of receipts and disbursements. In the fulfilment of this function, too, the auditor has a moral obligation to the public. Because of this obligation he should strive to make the statements on which he is reporting as clear as possible.

The corollary to this suggestion is that the financial statements of charitable organizations be given wider publicity. Most chartered accountants would like to see the prior year's statements form part of the fund raising campaign literature of all charities. The auditor alone can not bring it about but he can direct his influence towards this goal.

Function as Adviser

In his capacity as adviser the auditor has a dual role to perform. He should recommend improvements in accounting systems and internal control and do his best to ensure that these recommendations are implemented well before any fund raising campaigns are started. In addition, however, the auditor often takes on a role almost equivalent to that of an officer of the charity. It has already been stated that the trustees are usually too occupied in other fields to devote much time to the routine administration of the charity. Since this routine administration is the main field of the auditor's activities it is not unreasonable to assume that he is better informed on this aspect of the organization than the trustees. It follows that his knowledge of the situation should be passed on to the trustees in a form of suggestions for improvement. In this sense the auditor of the organization's accounting records becomes the auditor of its employees as well. While this function should not be assumed irresponsibly it can be a very important one and should not be neglected. An inefficient office staff can be far more expensive to an organization than a dishonest one. If such a situation exists the auditor should not hesitate to express himself.

The auditor's advisory function might also be extended to giving assistance in the preparation of budgets. In this field he has had special training and experience. His knowledge might therefore be of considerable help to the trustees.

Fee Collector

Finally, there is the matter of fee arrangements. The central issue on the subject is whether charities should be billed at reduced or nominal rates simply because they are charities. There should be only one answer to this question. As a member of a professional group we are a privileged minority who must accept the responsibilities inherent in our position in the community. Too often have charitable organizations been the victims of amateur auditors. Profit-making concerns learned long ago that they could not afford such a luxury. How much more should this knowledge be extended to charities! It is the duty of all chartered accountants to accept the full share of their responsibilities to charitable organizations and serve as auditors for them at reasonable rates.

Microfilming in Business

J. BRUCE CRAMMOND

MICROFILM is saving money for many businesses. It is supplying others with a hitherto unavailable protection against the loss of irreplaceable documents.

First of all, what is microfilming? It is the recording on film of a much reduced photographic image of paper documents. Reduction ratios vary, but by using a common reduction ratio of 37-1, 10,000 letters may be microfilmed on a 100-foot roll of 16mm. film. Such a quantity of film would require storage space not much larger than a cigarette box (4″ x 4″ x 1″).

The microfilming process is simple. Documents fed into the machine literally take their own pictures. The equipment for photographing (the recorder) is easy for any office clerk to operate after a short introductory training period. The film is developed by the supplier and returned for filing. The equipment required for viewing (the reader) displays the document images on a glass screen at actual size. Combination recording and reading units are available. Indexing meters permit rapid location of images.

Costs of microfilming equipment vary considerably. A quality combination recording and reading unit may be obtained for approximately $2,700. Separate readers cost about $500. This type of equipment would normally be located in the general office, and no heavy wiring is required. Although noise is not excessive, some offices have installed the equipment in a separate room. Machines are often portable and may be moved to the most convenient location for operation.

Microfilm has the permanency of the best rag-content paper and has been rated as having a life of 500 years.

To see where the money savings lie, several applications of microfilm will be examined.

Applications of Microfilm

BANKING

Many of the items clearing through the banks require a charge against their depositors' accounts for negotiable paper which the banks have honoured. These transit items are returned to the issuers in many cases; no copy remains with the bank to substantiate the charges against the depositors' accounts. By microfilming these transit items, many banks perpetuate a copy in their own records.

It is interesting to note that modern microfilming equipment owes a good deal to one banker. Some years ago an unscrupulous depositor defrauded a bank by destroying one of the returned cheques which had been legitimately charged against his account. He then challenged this charge and, when the bank was unable to produce positive evidence of its correctness, was successful in having the entry reversed. The banker who was an amateur photographer then began to photograph the documents to substantiate subsequent charges against this depositor's account. When at a later date another legitimate charge was challenged he was able to produce a photograph of the document to support the disputed charge. Microfilm had previously been used during the siege of Paris to facilitate the sending of documents by carrier pigeon from the besieged city.

Department Stores

Customers' charge accounts at department stores require a large volume of transactions to be processed as charges or credits to these accounts.

If microfilm is not used, a copy of each sales slip or credit slip is filed to substantiate the entry to the customer's account. On the customer's statement a brief description of the item is usually shown.

With microfilm, no paper copy is retained and no description need be written on the customer's statement. The original documents (sales slips, credit slips, etc.) are sent to the customer along with the statement after microfilming. The microfilm provides a complete record of the customers' accounts. Savings are realized in form cost, filing labour, storage space, lower cost of mechanical accounting equipment and in the elimination of many customer enquiries.

One large department store has over 7 million sales slips on microfilm lodged in cabinets about the size of four standard office filing cabinets.

Retail Gasoline Sales

This application is similar to the one for department stores. Before being mailed, the statements and customer invoices are microfilmed to produce the only record retained by the company.

This procedure is also used by the telegraph offices in many large centres. The customer receives a copy of the telegram to substantiate the charge on his statement. The company retains microfilm only. Additional savings have been realized here by the elimination of many requests for duplicate copies of telegrams.

Census Record

The census records of the federal government as well as the national registration have been recorded on microfilm to reduce storage space and permit easy reference.

Accounts Receivable

Some organizations microfilm the accounts receivable records frequently and store the microfilm at a second location. This film record protects the assets of the organization against loss through the destruction of their accounts receivable record. Such loss could be by negligence, fire, flood or bombing. This protection is vital for large companies having millions of dollars of assets evidenced only by ledger records.

Stock Brokers

At least one stock broker uses microfilm to record pictorially the receipt and delivery of securities. Thus

he has virtually eliminated the "script ledger". This procedure proves beyond all doubt which securities have been received or delivered. The photographic image can make no errors or transpositions in certificate numbers or quantities.

LAND FILES

Some provincial governments have realized that continued handling of any reference document shortens the life of the document. Irreplaceable documents have been microfilmed. The microfilm is then used for reference and the documents are removed from circulation to prolong their life. Two rolls of microfilm may be produced from the one filming so that one roll may be used for current reference and the second filed as a permanent record. If desired at a later date, an additional roll of film may be made from one of the original rolls.

BRANCH OFFICE RECORDS

The microfilming of branch office records and the sending of this microfilm to the head office permits certain audit functions to be performed in absentia.

ACCOUNTANTS AND AUDITORS

Some auditing firms have already used microfilm to preserve previous year' working papers. This procedure reduces storage cost and protects against loss of working papers.

Microfilming of Office Records

Business organizations are applying microfilm in one or more of the following ways:

1. To originate an easily stored and positively non-disarrangeable file copy.
2. To reduce storage space and cost of filed records.
3. To produce a "Catastrophe copy" of valuable and irreplaceable documents.

From the accountant's point of view, additional applications are obvious.

GENERAL ACCOUNTING

Savings in form cost may be realized by the microfilming of sales invoices to create a numerical file. After the microfilming, the invoices may be sorted alphabetically and thus from one copy of the invoice both a numerical and alphabetical file are established. The photographic file is available for ready reference, but may not be disarranged. Any of these documents on microfilm may be reproduced at actual size in what is very similar to a photostatic copy.

CASH RECEIPTS

The microfilming of incoming cheques and envelopes as well as daily bank deposit slips permits positive internal control of cash.

CASH DISBURSEMENTS

Microfilming of outgoing cheques with the invoices being paid thereby reduces the possibility of disbursing cheques to fictitious payees.

Before embarking on a microfilming program, it would be wise for a business to check with its solicitor and the taxing authorities. The legality of microfilm has been discussed at length, and a solicitor could best advise anyone interested. The taxation authorities will accept microfilmed records, but require certain reasonable formalities to be complied with.

Microfilm has just begun to go to work in Canadian offices. Imagine the additional space which could be freed for productive use if all non-current documents now in storage were

microfilmed and destroyed. One large Canadian corporation at present prepares and stores one catastrophe copy of all accounts receivable statements sent to its customers. The same result could be obtained by simply microfilming the accounts receivable ledger card from time to time.

The new age of automation has been widely discussed and million dollar equipment has been installed requiring many man years of programming. Perhaps the excitement over automation has somewhat eclipsed the savings available from the relatively simple microfilming machines. Modern microfilm equipment is now an economical office tool. Film cost has been reduced to about $4.00 per 100 foot roll. Ease of operation and simplicity of design eliminate any extensive training in photography and make microfilm well worth serious consideration.

SAYING IT SIMPLY

The greatest statements of all times have been made in little words. Many times when something goes wrong it is because there was a breakdown in communication. Someone said something to someone else and that individual heard something else. No one should be satisfied with his vocabulary. We should seek to improve it constantly and to increase the number of words at our command until one day we have a vocabulary so large that we will be able to say everything we wish to say in little words. That's the proof of a good vocabulary. Newspapers have good vocabularies. That is why the greatest statements of all time have been recognized by the press and recorded for history.

How about the promise Sir Winston Churchill gave freedom-loving men when he stood pretty much alone on the chalk cliffs of Dover: "Blood, sweat and tears" — just one syllable words. Or how about his tribute to the R.A.F. and R.C.A.F. after the Battle of Britain: "Never in the realm of human conflict have so many owed so much to so few". The most powerful part of the statement is "owed so much to so few". These are one syllable words.

The greatest speeches of all time were the Sermon on the Mount, Lincoln's Gettysburg Address and Patrick Henry's speech before the Virginia House of Burgesses. In Patrick Henry's speech, the final and most famous sentence had only one word of three syllables and only one word of two: "I care not what course others may take, but as for me, give me liberty or give me death". Let's never be afraid or ashamed to speak simply. It is the only language human beings can understand.

—Dr. Arthur Secord

Real Estate Agency Accounting and Control

GORDON C. GRAY

To KEEP the books and control the finances of a real estate agency properly, it is essential that the accountant should learn something of the business in general. It is also of great importance that he should become intimately familiar with the governing legislation of the province in which the agency operates.

In Ontario, the conduct of all real estate agencies is regulated by the Real Estate and Business Brokers' Act. The Real Estate Brokers' Act first came into force on February 19, 1931, and in 1946 a new Act was passed to include the business brokers of the province. There have been a number of amendments, the latest having received royal assent on April 3, 1957.

Sales Record Sheet

The Ontario Act carefully sets out all rules for the operation of a real estate agency in the province. The accountant will be most concerned with those sections dealing with certain bookkeeping procedures which must be followed, and in this respect the Act leaves little to the imagination, particularly in connection with the treatment and recording of trust funds. The key document here is the "sales record sheet", which must be used by every broker in Ontario to record the details of every trade in real estate. When completed, this form contains an entire historical record of the flow of all trust funds that may be involved in the transaction covered. It also shows information concerning the date of sale, address of the property, names and addresses of the vendor and purchaser, sale price and amount of the deposit, split of the commission involved between the office and the salesman, and names of the vendor's and purchaser's lawyers.

The sales record sheet then becomes the primary record of the transaction and must be permanently filed as such by the broker. No deviation whatsoever is allowed from this form as prescribed by regulations under the Act. A copy of the form has been reproduced on page 439.

Holding Deposits in Trust

The Act provides for a careful segregation of trust moneys from the general funds of the agency. A single trust bank account must be maintained, and disbursements from this account may be made only in accordance with the terms of the trust. A

deposit on the purchase of a property is, in fact, held in trust by the agent on behalf of both the vendor and the purchaser, usually "pending completion or other termination of the transaction". It is common practice, on closing, for the agent to deduct his commission from the deposit received before forwarding the balance to the vendor. The agent must be careful, however, not to turn over a deposit or balance of deposit to either party until the sale has been satisfactorily completed, or until he is absolutely satisfied that he is acting in accordance with the terms of the trust. If he is in doubt on this point, he should make every effort to obtain a written release from one party authorizing him to pay the deposit to the other. He may sometimes find himself in a dilemma arising from an abortive transaction, as a result of which both parties request payment of "their" deposit. At such times the agent should make a firm stand until the two parties have settled the matter between themselves. If he allows himself to be intimidated by either party and as a result acts prematurely, he may find himself the target of a lawsuit initiated by the other side. Occasionally, he finds himself in the middle, making no personal claim on the deposit for his efforts in the transaction, and facing a threatened lawsuit from both vendor and purchaser at the same time.

Recording Deposits

A suggested accounting procedure for the recording of trust deposits and commission income is as follows:

1. The deposit cheque is placed in the agent's trust bank account immediately upon receipt, and a notation to this effect is made on the relative sales record sheet. At the same time, each transaction is given a permanent reference number.
2. An open file is kept of all sales record sheets in respect of which deposits are being held in trust.
3. The trust bank account should always be in balance with the total deposits shown on the sales record sheets filed as under No. 2.
4. On completion, a sale is entered in a "closing" book. The total commission involved is debited from the closing book to a "commissions receivable" account, the office share of the commission is credited to "income" and the salesman's share is credited to their respective "commissions payable" accounts. The closing book is a permanent record of completed transactions and indicates the transaction number, the address of the property, the date of completion and all other pertinent data.
5. The commission involved in the transaction is transferred from the trust account to the agent's general bank account with the balance of deposit, if any, being disbursed to the vendor direct from trust.
6. The commission so transferred is credited to "commissions receivable" as an offset against the entry under No. 4 above.
7. In cases where the deposit is insufficient to cover the commission, the entire deposit is transferred to the general account and credited against "commissions receivable". The balance, when received, is deposited direct to the general account and completes the credit to "commissions receivable".
8. When the total deposit has been cleared from the trust account, the related sales record sheet is removed from the open file describ-

SALES RECORD SHEET

(prescribed by the Superintendent under subsection 1 of section 34 of the Act)

.... Date ....

(Name of Broker)

I have today sold the property known as ....
Owned by .... whose address is .... Tel. No. .....
to .... now living at .... at a price of $....
sale to be completed .... I have taken a deposit of .... cash / cheque

COMMISSION $............ SALESMAN $............ OFFICE $............

(Signed)..........................

(Salesman)

This space for office use only

Received deposit from (Salesman) .... Date ....

DEPOSIT IN TRUST (date)	.... Purchaser's Solicitor
Statement to vendor (date)	
Remitted to vendor (date) .... Cheque No.	
Transferred commission to Gen. Acc't. (date)	.... Vendor's Solicitor
Paid Salesman (date)	

ed under No. 2 and placed in a permanent file with all other transactions closed during the month.

9. Cheques are generally issued weekly to salesmen against credit balances in their "commissions payable" accounts.

Unfortunately, it does not follow that a good salesman has necessarily also been endowed with the ability to organize and control a business. In fact, the converse is frequently true, and since many agencies are not large enough to support a qualified full time accountant-office manager, it frequently becomes the auditor's job to guide his client along a business-like course. In such cases, it is necessary for the auditor to know something of the day-to-day operation of a typical real estate agency.

Salesmen's Drawing Accounts

Salesmen's drawing accounts are always a difficult matter. Brokers are regularly faced with the problem of either gambling on drawing accounts or risking the loss of good prospective salesmen. Salesmen are sometimes heavy spenders, and a man without funds is not necessarily a poor producer. But advance and drawing accounts can be dangerous, if not rigidly controlled, and can sometimes accumulate to the point where the agency's very solvency may be threatened. It is essential therefore that a firm policy be established in this connection. A broker must set the maximum amount per week that any man will be allowed to draw and the maximum number of weeks that a draw may continue. He must be pre-

pared to stand by his policy in a case where the salesman does not produce, in spite of the inevitable temptation to continue the draw a little longer in the hope of recovery. To continue, in the great majority of cases, is to throw good money after bad. Where a salesman has business on the books awaiting closing, however, a 50% advance against such business is generally considered fairly safe, provided the transactions in question are firm and unconditional.

Agency Expenses

Newspaper advertising is a broker's largest single item of expense and must be subject to careful control. The two basic approaches are (1) a monthly budget to each salesman on a total lineage cost basis, or (2) a monthly limitation based on a percentage of commission earned by each man. Provided a salesman produces, he may receive a greater advertising allowance under the second than under the first. The total costs and percentages used in setting up a newspaper advertising budget will vary greatly and will depend on the extent to which other forms of advertising media are used. In residential sales, the total newspaper advertising costs should probably not exceed 10% of commissions earned.

Rent and telephone constitute other substantial items of expense and must always be watched. A residential sales office is generally better situated on a ground floor location because of the opportunities for "walk in" trade, while it is usually advantageous for a commercial and industrial office to locate in the downtown area. In both cases, since higher than average rentals must be paid, the office should be laid out in the most efficient possible manner. A fair volume of long distance calls can be expected and a system should be enforced to record all such calls as they occur. The sales manager or broker should initial each call slip for approval, preferably in advance.

Monthly Statements

Because of the frequent fluctuations of the real estate cycle, it is most important that some sort of monthly statements be prepared. Most real estate agencies record income on the books only when the transactions have been closed and the relative commissions have been earned and received. There is generally a lapse of from several days to several months between the signing of a transaction and the actual completion of it and payment of the agent's commission. Statements showing closed business only do not, for this reason, indicate the current level of business activity but are generally two or three months behind. A suggested method, therefore, is the operation of an "opening" book which is really a memo record of contracts as they are entered into. Monthly statements can then show, in addition to the regular profit and loss account (on closed business), a second profit and loss statement indicating business "opened" during the month, less operating expenses incurred during the month, with the resulting profit or loss for the month on "opened" business.

A proper system for the recording of salesmen's earnings should include at least:

1. A method of accumulating the earnings of each salesman for the purpose of issuing his T-4 tax slip at the year end.
2. A method of recording all charges against his commission account for

the purpose of calculating his net weekly commission cheque.

3. A method of providing each salesman with his own set of records so that the accounting personnel will not be bothered by salesmen continuously requesting back information on their individual accounts.

Salesmen's Commissions

One relatively simple but highly satisfactory method for the recording and payment of salesmen's earnings is as follows:

1. Every salesman completes a "sales record sheet" (see foregoing) which indicates, among other things, his share of the total commission earned. This form is checked and initialled by the department sales manager before forwarding to the accounting department.
2. The information contained on the sales record sheet is transcribed by the accounting department onto a "record of salesman's earnings" which is completed in triplicate. (See exhibit "A" below.)

Exhibit "A"

RECORD OF SALESMAN'S EARNINGS

Salesman:
Department:
Sale ______
Lease ______
Mortgage ______
Valuation ______
. . . . ______
Transaction No.:
Property:
Vendor:
Purchaser:
Date:
To Close:
Commission: $
Remarks:

Exhibit "B"

STATEMENT OF SALESMAN'S ACCOUNT

Salesman:
Balance at . . . . $. . . . .
Transactions Closed
No. . . . . $. . . . .
. . . .
. . . .
. . . .
. . . .
. . . . $. . . . .
$
Charges
Interest $. . . . .
Grp. Ins. . . . .
Parking . . . .
Cheques
. . . .
. . . .
. . . .
. . . .
. . . .
. . . .
. . . .
. . . .
. . . . $. . . . .
Balance at . . . . $. . . . .

Remarks:

3. One copy (white) of the record of salesman's earnings goes back to the salesman for his records. The second copy (green) is set aside, and all second copies are totalled at the month end and balanced with the total salesmen's share of commission in the opening book. They are then sorted to compute for each salesman a total earnings on business opened. This total is used for advertising control, etc. The third copy (yellow) goes into the salesman's folder and provides a total for each man, at any time, of the amount of business awaiting closing. This is used for determining the extent to which advances

will be made against commissions.

4. When a transaction has closed, the third copy of the salesman's earnings record is withdrawn from his folder, and the information and amount of commission is recorded to the credit of his commission account in a "commissions payable" ledger.
5. Charges against the salesmen are entered directly from the cash book or other book of original entry to the debit of their respective accounts in the commissions payable ledger.
6. Once weekly, commission cheques are issued to all salesmen in credit balance and a statement is issued along with the cheque (see exhibit "B" above). Statements are issued monthly to all salesmen on drawing accounts or who may have debit balances as a result of advances made against business "opened".
7. The third copies of the salesman's earning record relating to transactions closed during the month are totalled at the month end and balanced with the salesman's share of commission in the "closing" book. They are then sorted and a total earnings on business closed is computed for each salesman, this figure being entered in a cumulative record for calculating T-4 slip totals at the year end.

Both the forms used for earnings records and the statements are punched and designed to fit in a small 4" x 7" three-ring binder. Each salesman is thus provided with what, in essence, is his own complete accounting system. He may check his T-4 slip at the year end by comparing it with the total of all credits shown on his weekly or monthly statements. He may also make use of the statements in reviewing charges made against his account during the year, some of which may be deductible from his earnings for income tax purposes.

In a multi-office real estate agency, it has generally been found that a completely centralized accounting system is the most satisfactory. In any event, it is doubtful whether many branch offices are sufficiently large to warrant employing their own bookkeeper or accountant. It is therefore suggested that the salaried personnel of the branch offices be restricted, wherever possible, to secretarial and stenographic help with all accounting matters being referred to and handled by the head office. This suggestion assumes the existence of local or near local branches only and further consideration would have to be given where branches are remote from the main office.

While many of the smaller agencies specialize in one or two closely related activities, most of the larger companies cover several fields of real estate activity. Some of these have a multiplicity of departments and offices, each specializing in a different service or in a particular geographical area. Residential and summer properties, commercial, industrial and investment real estate, land development, appraisals and property management are some of the services available through real estate firms. In this competitive age, each area of activity requires the knowledge and skill of a specialist and no one man can competently deal in all of them. Where a number of phases of real estate are being handled by one firm, it is strongly advised that the firm's accounting system be departmentalized to recognize and separate the in-

come and expenses of each phase. In this way "soft spots" in the organization can be more readily detected and a greater degree of control can be exercised over fees and commission charges and expenses incurred in the various departments. Each department should be made to stand on its own, and the manager should be expected to produce a profit commensurate with the size of the operation.

While most costs can be directly atttributed to one department or another, a formula must be determined to govern the splitting of indirect and head office charges. One suggested method, applicable to all sales departments, is to allocate indirect costs on the basis of manpower. A department with ten salesmen would be responsible for twice the burden of a department with five men. The assumption here is that each salesman should, on the average, produce approximately the same volume of business. Twice as much time will be required in the accounting department to process the business produced by the ten man department as compared with the five man department. Thus twice the charge will be levied against the former. This formula is designed for and applies essentially to sales departments. Refinements must be made for non-selling departments such as property management and appraisals.

Formula for Success

In the long run, the success of a real estate agency will depend upon the ability of management to carry out (i) a continuous and careful analysis of general business conditions, (ii) a constant effort to match these external factors with the current financial picture of the agency, as revealed through the production of complete monthly statements, and (iii) the exercise of adequate financial control in accordance with the conclusions reached from (i) and (ii).

It is of interest to note the findings of economists in Canada and the United States as a result of recent efforts to relate the real estate market with the general business cycle. Certain factors of "cause" exist which can be used as advance warnings against an impending change in the level of activity:

1. Residential occupancy and vacancy level.
2. Residential rent price.
3. Purchasing power of the commodity dollar.
4. Eviction suits.
5. Extent of families unemployed and on relief.

Other criteria which may be termed factors of "effect" reflect a change in the business trend after it has occurred, and sometimes subsequent to the low point or the peak in a cycle. These are:

1. Volume of real estate sales.
2. Mortgage lending.
3. Real estate security prices.
4. New construction activity.
5. Foreclosures.

These factors of "effect" clearly indicate over-optimism in a boom period and excessive pessimism in a depressed period of many whose business is closely related to the real estate field.

Retail Branch Accounting

JOHN W. DIXON

THE 1951 CENSUS enumerated 151,626 retail outlets in Canada with a sales volume in that year of $10.7 billions. Nearly 75% of this business was done by 143,930 independent merchants, 95% of whom controlled single unit outlets. The next largest group was composed of 488 chain store organizations which together accounted for 16.6% of the total retail sales in 7,585 branch stores. The remaining 8.5% of retail business was claimed by 111 department-store organizations.

Prior to 1900, retailing was dominated by the single-unit general store. During the latter part of the 19th century and the early part of the 20th, the general store enlarged its business by offering a wider range of merchandise under one roof. As the population became increasingly urban the modern department store emerged. There are, however, definite limits to the continued growth of a store in this direction and other methods of expanding volume had to be sought. With spreading urban areas and consequent traffic problems for the consumer, the need to bring convenient goods outlets into close proximity of the market encouraged merchants to seek increased volume by opening small branch outlets in neighbourhood areas. Statistics of this growth in Canada began only in 1930, and that year, 518 organizations operated 8,097 stores doing a sales volume of $487 million. By 1940, the number of stores had dropped to 7,131, and volume had increased to $508 million. In 1955, 8,274 stores, operated by 496 organizations, produced sales of $2,354 million.

There are sound economic reasons for the strong position chain stores have won for themselves in retailing. A brief account of these forces is necessary to a proper understanding of the system of accounting in use because accounting systems tend to take on the characteristics of the industries they serve. In this case the industry is highly centralized; therefore the accounting is centralized with as much control as possible exercised from the head office.

The smaller chain store can reach more people simply by adding more sales outlets. It has flexibility of location and can follow a shifting population. This flexibility also provides a form of insurance, a spreading of the risk, so that one unprofitable location will not cripple the organization. As chains are "cash and carry" operations, they are low cost stores.

The advantages of division of labour which did so much for manufacturing efficiency apply with equal force to retailing. Specialists perform the many tasks formerly borne by the individual store owner.

By far the most important reason for the existence of chains is the ability to obtain large sales volume, for volume brings with it many advantages. First of these is the ability to buy directly from the manufacturer. A single handling of merchandise makes for lower distribution cost; and direct purchasing enables the manufacturer to produce for a firm order, lessening the risk of inventory loss. Production peaks can be reduced and steadier employment provided. Secondly, volume permits quantity buying, and breaking bulk in warehouses, which usually reduces unit costs. A third advantage is the ability to use advertising media for a number of stores, instead of one or two. Finally, the attainment of high volume and rapid turnover permits a company to operate on a lower-than-otherwise gross profit margin, thereby permitting lower prices, which in turn stimulates sales.

Against this background an attempt will be made to describe the accounting system in one chain of limited-price variety stores, with more emphasis upon the reasons for what is done than upon the details of the doing.

Store Records

In the local store, merchandise is ordered by means of printed listings for each authorized supplier, which list all merchandise the store may order. After counting stock on hand and estimating future sales, the manager makes out his order and sends it to the head office for validation and forwarding to the supplier. In this way strict control is kept over sources of supply and, in a general way, over purchases.

Copies of the listings are filed in the store and serve to record quantities ordered, on hand and sold. They are also used to check invoices from suppliers as to quantity ordered and cost price. During this operation, selling value is calculated and entered on the invoice "sticker" for use in later recordings. (The invoice "sticker" is a form which is attached to the bottom of the invoice for accounting purposes. Spaces are provided for store number, initials of stockroom checker, date of entry in invoice register, selling value, cost, duty, freight, laid down cost, manager's approval and accounting distribution.)

All invoices, whether for merchandise or expense, are first checked and then entered in a store invoice register. This is a memorandum record which is kept as a guide to the store manager, and to permit the preparation of monthly and annual reports to head office. The register has sections for merchandise purchases (one for each department) and for such expenses as salaries, utilities, supplies, incidental expense, equipment expense, building repairs and donations.

Entries in the register come from suppliers' invoices, warehouse and other branch store invoices, head office charges, store daily cash reports and a summary of markups, markdowns and visible waste.

The most important record the branch store keeps, and the only one which forms an integral part of the financial accounting at head office, is the daily cash report. Receipts from sales, payroll deductions, pay telephones, provincial sales tax collected

and the like make up the cash income; bank deposits, salaries and minor expenses are the principal cash outgo.

The food department operates differently, for here local purchasing is necessary and selling value cannot be recorded on purchase invoices. Physical inventories are taken monthly to determine cost of sales, and this figure, as developed from store records, is the basis of an entry on head office books crediting inventory account and debiting cost of sales.

The principal reports made to head office are a monthly profit and loss report; a statement of merchandise purchased (at cost and selling values), sales and inventories; and an annual net profit report. In addition, the stock of variety merchandise on hand is reported daily on the cash report. All of these reports are prepared from the invoice register which is a memorandum record.

Warehousing

The organization described here does not warehouse all its merchandise as do some chains. In fact, a small percentage of the goods handled goes through the company's warehouses. Grocery chains warehouse practically everything because they handle large quantities of merchandise, some of which is very heavy. In order to get the best price possible they buy in carload lots, making a warehouse operation both necessary and economical. Drug chains must warehouse because most of their shipments to stores are in such small quantities that drop shipments from suppliers would be uneconomical. Variety chains come in between these two extremes: like department stores, they buy in quantities which are most economically handled as direct shipments to stores.

The warehouse operation is confined to staple items which can be purchased in large quantities at manufacturers prices. Stores order from the warehouse on a printed listing which is returned to the store as an invoice against which the goods are checked. The order-invoice remains in the store after being recorded and the store receives its charge, at cost and selling values, from a daily sales sheet prepared by the warehouse and forwarded to the head office. Once a month a tabulated listing of warehouse charges is sent to each store where it is checked against the invoices on file.

The entry in the head office is simply a credit to warehouse sales, and a debit to store merchandise purchases. Since the selling value account is not tied in with the financial accounting, there is no profit suspense account either for the warehouse purchases or the stores' purchases from the warehouse. Both sides of the entry are of course a part of the overall cost of sales account of the chain, and are segregated by means of account numbers and store numbers punched into the tabulating cards which record each transaction.

Head Office Accounting

In the head office of the company, the invoices, cash reports and other documents from stores are individually recorded by means of punched card equipment and summarized in books of original entry for posting to general and subsidiary ledgers. A card is punched for each document or entry, and into it is punched an account number and a store number. Sortation of these two numbers, and

production of summary cards, produces eventually one card for each account for each store: from this basic record is prepared a stock ledger, and a stores' ledger.

In the stock ledger each store's account is charged at cost and selling with the opening inventory and purchases, and credited with sales. The monthly selling value inventories which result are costed by applying the cumulative gross profit percentage on purchases, but this is only done for insurance reporting purposes; the selling value balance is the one which is used for inventory control.

The stores' ledger is a tabulation of sales, purchases and expenses by stores which becomes, at the end of the year when opening and closing inventories are included, a set of operating statements for the stores. No use is made of this information for reporting or control purposes during the year; only at the end of the year when all invoices, inventories and accruals are taken up is this record called into service. It is considered too expensive and too slow to make monthly closings of the stores' ledger. Invoices are in transit and under adjustment at each month-end, expense accruals would be numerous and complicated, and the information obtained in this way would be late. The memorandum reports made up by the stores are more likely to include all expenses, are available immediately after the month-end and are sufficiently accurate for making policy decisions. They are therefore used for control purposes during the year.

The most important figures of store operation are sales, gross profit and salaries. Sales are accurate on these reports and can be verified from the cash reports and cash register records. Gross profit is established by applying to sales the cumulative markup on purchases which is computed at head office from the invoices processed. Salaries can be verified through the cash reports on which they are recorded, and by the duplicate payroll journals.

As mentioned earlier, cash reports are an integral part of the accounting system, and are therefore subjected to close checking and verification in the head office. The usual techniques of internal control, such as cash registers, signed payrolls, receipted vouchers, etc., are used to safeguard cash. Receipts from sales in excess of payroll and change requirements are deposited daily in local bank accounts on which the managers do not have signing authority; automatic transfers then channel the funds to head office to which all bank documents are sent and where all bank accounts are reconciled.

The main problems of control in a chain store organization concern cash, inventories and expenses. Because ownership is distant from the local operations, control from head office is necessary to safeguard cash, to keep inventory losses to a minimum and to prevent unnecessary expense.

Head Office Control

Accounting plays a part in establishing this control, but it has limitations. For example, it is difficult to instal an accounting control to ensure that all sales are registered; a certain amount of stock will disappear in spite of the best precautions (this is called invisible shrinkage); and accounting controls cannot prevent merchandise from being soiled or broken. Expenses can presumably be controlled by careful budgeting, and it is in

this area that accounting can be most useful.

Cash

The control of sales is centred in the cash register. The recording dial is kept locked, and custody of the key confined to the store manager or his appointee, usually the office cashier. Each day the registers are read and the tills balanced; overages and shortages are established for each register, and large differences investigated. As mentioned above, the problem is not so much to control what has been recorded, as to ensure that each sale is registered initially. Careful employee selection and training, constant supervision and shopping service checkers are more useful for this purpose than accounting media.

It should be explained here that the cash registers in use do not produce a receipt for the customer or departmentalize the sales as do registers used in groceterias. Since variety stores are not yet normally self-service stores with check-out cashiers, registers are spotted all over the store; because the investment in registers is heavy they must be of the simplest type. During the day, several sales clerks will use the same register, and this further complicates the difficulty of assigning responsibility for cash shortages. Variety stores are now venturing into self-service, and in this type of store central registers which produce customer receipts are used. However, in the majority of stores the control over cash is still a matter of ensuring the initial registration of the sale.

Periodically cash counts are made by the store superintendents. At that time cash register readings are taken and forwarded to head office for comparison with the cash register records on file there. At the same time the cash balance is reported for comparison with the relative cash report sent in by the store.

Wages are paid in cash at the store from payrolls prepared on the spot. This is one example of decentralization from which it is difficult to escape. Due to staff changes, irregularity of hours, and payroll deductions for such things as employee purchases and hospital insurance, it is not practicable to centralize this operation. Payrolls are prepared in duplicate and one copy is attached to the cash report sent to head office. New employees must be registered with the head office, which prepares and sends to each store each week a payroll journal with employees' names already recorded on it. The store merely completes the wage data and pays out the net wages. Individual salary data is accumulated by head office for preparation of government wage returns and personnel records. In every store, two or more people are involved in the preparation and approval of payrolls.

Inventories

Without central warehousing of all merchandise, control of stocks in stores is difficult. Although orders are approved by head office, stock control is primarily the local manager's responsibility because only at that point is there up-to-date information about stock on hand, on order, and sales. While the head office has a daily memo of stock on hand, this information is only a dollar total; likewise the stock ledger maintained in the head office is only a total dollar figure. This is useful for overall control and provides the initial warning of a heavy stock position. But is this the real purpose of stock control? Is

not the important point the composition of the inventory? Each store is given an authorized "capital" for total stock, but in addition it is required to carry particular items, and to have these items on sale in adequate quantities. To have the right merchandise on sale at the right time and in the correct quantities is the key to good merchandising, and the essence of stock control. If this condition exists — and it can only issue from careful stock taking and systematic ordering — the overall stock position will be under virtually automatic control. This may raise the question of perpetual inventory records by departments, lines or individual items. Such a detailed process is not feasible in a retail business handling thousands of low-cost items. The expense would be prohibitive.

Beyond the limited control available through validating orders and daily and monthly reports of sales, stock on hand and turnover (sales divided by stock on hand) the company relies upon merchandise superintendents who visit the stores periodically. The composition of the inventory is examined in detail several times a year, and the store is rated according to a standard system of evaluation.

Expenses

In retail organizations expenses are customarily expressed as percentages of sales. Budgeting is therefore relatively simple once the sales volume has been realistically estimated. Moreover, whether sales come up to expectations or not, a store manager knows that he must endeavour to keep expenses proportionate to sales. It is not suggested that expenses will always vary in direct proportion to sales; in fact an increase in volume usually reduces expense percentages and vice versa.

Control over expenses is exercised by close examination of the monthly net profit report and salary statistics.

The opportunity for comparison is one advantage of chain store organizations which is particularly valuable in controlling expenses. The various items of expense follow a well defined pattern (making allowance for special circumstances), and deviations from normal stand out sharply. Well managed stores, easily distinguished from poorly managed ones, provide a basic standard of performance against which to check all outlets.

While expenses are closely watched by head office, the real control is in the hands of the store manager. Having set his budget he must control his salaries and other expenses so as to live within it. It is apparent that he could not do so without a record of expenses in the store for constant reference which is up to date at all times. This is the real reason for the detailed records which are kept by the store, even though they are only memorandum accounts.

There is, however, more to expense control than accounting. Salary hours must be budgeted, both on a weekly and an annual basis, because volume comes in peaks toward the end of the week, and at such seasons as Easter and Christmas. Supplies must be allocated by quantity, and all equipment must be maintained on a regular schedule to minimize repairs. These management problems are mentioned here in order to illustrate the close partnership of the accounting and operating functions.

The final comparison of store results is made at the year-end when

physical inventories are taken, and both the store and the head office prepare an annual profit (or loss) report. At that time, inventory losses are established on head office records and comparisons are made with store records for all items in the profit and loss statement. This is done only once a year because of the expense involved in taking inventories of thousands of low cost items and the difficulty of making an even cut-off of all records in both store and head office.

Conclusion

The chain store has developed into a large scale centralized organization operating with as much accounting control as possible from the head office. Nevertheless the local manager is still the key to success: in the vital areas of stock control, sales registration and the expense budget the real control is local, and accounting has limitations. This is one of the reasons for fairly simple hand-produced memoranda records at the store level. Another is the cost factor: an individual store simply cannot afford elaborate accounting systems.

The situation is, however, not static, but constantly evolving. Since it is much more economical to do the accounting work at the head office where volume permits the application of advanced techniques, the trend is toward centralization. More and more we are finding that work formerly performed at the store level can be transferred to the head office. With the application of electronics to accounting problems, the day may not be far off when time and distance will be so annihilated that all accounting and reporting will be centralized, leaving the store with nothing more than invoices, cash reports and suppliers' listings to handle.

CORRECTION

Because of a typographical error in Administrative Accounting for April, 1958, the relationships governing the level of dividend payments and the rate of dividends a share shown at the top of page 356 were stated incorrectly. The relationships should be as follows:

Financial resources)
(Level of profits, rate)
of capital expansion)
etc.))
) ► Total dividend
Intangibles) payments
(Conservatism of Bd.)
of Directors, etc.))

Total dividend)
payments) ► Rate of dividend
Number of shares) a share
outstanding)

Edited by LAWRENCE G. MACPHERSON, F.C.A.

Accounting Research

Director of Research, C.I.C.A.

The Confirmation of Receivables

The bulletins issued by the Committee on Accounting and Auditing Research are directed mainly to accounting principles, but auditing has not been ignored. The techniques and skills of auditing are such, however, that the possibilities of uniform procedures are very limited. Every audit is in some respects unique, and the aspects which are particular are found to vary from audit to audit. It is doubtful whether any audit procedure, if described in precise terms, could be elevated to the status of an essential technique for which no alternative could be allowed.

What is suitable or adequate in each audit will depend on the circumstances of the audit. Generalization or standardization is helpful only if broadly conceived. A certain procedure may be found to be, in general, the best procedure for its purpose, but other available procedures may produce satisfactory results. Perhaps the generally best procedure is quite impractical in some cases, and something else must be found on which the auditor can base his opinion. This may place great demands on his skill and judgment, but the professional auditor will welcome the opportunity to test his talents.

There is nothing wrong with general recognition of a given type of audit procedure as standard practice (in the sense of normal practice), so long as the standard is broad enough to encompass suitable variations, and flexible enough to permit valid exceptions or suitable alternatives. The danger to be guarded against is any tendency toward codification of audit techniques which would tend to substitute formalized procedure for an inquiring examination.

These broad principles seem to be well recognized in our profession. At the same time, it is acknowledged that there are certain aspects of auditing practice which can be advanced by formal statement of the status of certain auditing procedures, if the statement can be drawn within the framework of the broad principles suggested above.

In 1939 the American Institute of Accountants voted into the status of standard practice the two audit procedures of observation of inventories and confirmation of receivables, where these procedures are practicable and reasonable. "Failure to apply the procedures, where they are practicable and reasonable, in general precludes expression of an opinion on the fairness of the financial statements taken as a whole." Further statements, released in 1942 and in 1956, call for disclosure, by the auditor, of any omission of these procedures and the use of other means to satisfy himself. The practice in regard to these procedures in the United States (and to a lesser extent in Canada) has undoubtedly been influenced

by the requirement of the U.S. Securities and Exchange Commission that the accountant's certificate "shall designate any auditing procedures generally recognized as normal, or deemed necessary by the accountant under the circumstances of the particular case, which have been omitted, and the reasons for their omission".

The research committee of the Canadian Institute has not, prior to Bulletin No. 15, issued a statement on the confirmation of receivables, but in Bulletin No. 7 (October 1951) it referred to observation of inventories in a paragraph pointing out that generally accepted auditing procedures at that time did not require attendance by the auditor at the physical stocktaking, except in the case of companies filing with the S.E.C. The research committee has reviewed the situation from time to time since 1951, and it has come to the view that it should now express its considered opinion as to the proper status of direct confirmation of receivables in auditing practice in Canada, as set out in Bulletin No. 15. The current agenda of the committee includes consideration of the need for a bulletin also on the observation of physical stocktaking.

Bulletin No. 15 recognizes the general acceptance of communication with debtors as a useful auditing practice. It also acknowledges that there are circumstances where this procedure would be impracticable or harmful, and that other procedures may be available to the auditor in these exceptional cases. The auditor should qualify his report if he is not satisfied that he has established the validity of the receivables either by communication with debtors or by adequate alternative procedures.

The bulletin carries the customary warning that it should not be considered of retroactive effect or applicable to items of little or no consequence.

C.I.C.A. Research Bulletin No. 15

April 1958

CONFIRMATION OF RECEIVABLES

1. The Committee on Accounting and Auditing Research has generally limited its bulletins on auditing to questions of professional standards and the forms of auditors' reports, in which a measure of uniformity is desirable. In the opinion of the committee, a bulletin setting out standards of auditing procedure should be issued only when the exceptional nature of a problem calls for formal recognition of an acceptable practice.

2. Members of the Institute have suggested that the committee should clarify the status of the procedures of confirmation of accounts and notes receivable by communication with debtors, and the status of alternative procedures in lieu of such communication.

General Use of Direct Confirmation Procedures

3. In the process of forming an

opinion as to the fairness of the financial statements, the auditor follows various procedures with respect to accounts and notes receivable to satisfy himself that the accounts and notes are authentic, and to evaluate their probable collectibility. The comments in this bulletin are directed mainly toward the auditing procedures related to the authenticity of accounts and notes receivable.

4. The committee considers that some form of direct confirmation of accounts and notes receivable by communication with debtors is a useful auditing practice which has gained general acceptance. At the same time, the committee recognizes that there are circumstances where direct confirmation would be impracticable or harmful to the client's business. In these exceptional cases other procedures may be available to the auditor, as indicated in paragraphs 14 to 18 of this statement. Some of these other procedures may also be appropriate even when direct confirmation is carried out.

Purpose and Timing

5. Communication with debtors assists the auditor in substantiating the balances which his client's records show as receivable, and may assist him in appraising the effectiveness of the client's system of internal control over the receivables.

6. The confirmation may be undertaken at a date other than the end of the financial period, if the auditor is satisfied that the result of the confirmation at that date is a reasonable indication of the authenticity of the accounts and notes receivable shown on the balance sheet. The auditor should take into account any material alteration in the circumstances between the date of confirmation and the date of the balance sheet, such as seasonal variations in sales and changes in personnel or in accounting and control procedures.

7. If internal control is not effective, and communication with debtors is used to check the authenticity of receivables, the confirmation should be undertaken at or near the end of the financial period.

Type and Extent of Confirmation

8. The conditions encountered in each audit engagement will determine the choice of confirmation procedures and the extent to which they are applied, but certain suggestions may assist the auditor in exercising his independent judgment in selecting the appropriate procedures in each case.

9. The communication may include a request that the debtor reply to the auditor only in the event of disagreement (i.e. "negative confirmation"), or the debtor may be asked to reply in any case (i.e. "positive confirmation"). Sometimes combinations of positive and negative confirmation are used. The procedures may be applied to all debtors or to a sample only.

10. The positive and negative forms of confirmation each have certain applications, and the choice between them will depend on circumstances. The receipt of a positive confirmation provides better evidence of the correctness of an account than does failure to receive a protest under the negative form of verification. The negative form of circularization, however, is simpler and less time consuming and consequently may permit coverage of a larger number of balances.

11. Negative confirmation suffers from the fact that it does not always receive consideration from the debtor, and consequently a failure to reply

does not necessarily signify agreement. Positive confirmation will seldom produce replies to all requests, but it sometimes has the advantage of producing useful information in cases where the customer is not prepared to confirm or is unable to do so.

12. Positive confirmation would be preferred:

a. for individual balances of relatively large amount; or
b. where there are few debtors; or
c. where there is evidence or suspicion of serious errors or irregularities.

13. For many audit engagements, a combination of positive requests for at least a sample of large accounts, and negative requests for at least a sample of smaller accounts, will provide a suitable coverage.

Other Procedures

14. While accepted auditing practice normally includes communication with some or all of the debtors, situations are sometimes encountered in which this form of confirmation would be ineffective. For example, certain debtors may not comply with the confirmation request because their bookkeeping is decentralized or mechanized and does not lend itself to convenient assembly of the creditors' whole accounts.

15. Where communication with debtors is deemed to be impracticable or harmful, the auditor must seek other means of satisfying himself that the receivables are authentic. Suitable procedures will vary greatly in different engagements and the suggestions which follow are not intended to cover all possible situations.

16. Collection of an account subsequent to the date of the balance sheet may provide corroboration if there is evidence that the payment was received from or on behalf of the debtor and that it was in satisfaction of a specific account or item.

17. Examination of internal evidence such as customers' orders and correspondence files, shipping documents and billing records, and stock control procedures, is useful in substantiating the receivables.

18. Requests to debtors for confirmation of a specific list of payments, or requests for a listing of recent payments or of payments made in a specific period, can be useful alternatives to direct confirmation of accounts or balances.

Qualification of Auditor's Report

19. In general, procedures substituted for communication with debtors are found to be less satisfactory and more costly, but they are recognized as acceptable procedures in some circumstances where direct confirmation is not practicable. Where the auditor is not satisfied that he has established the validity of the receivables, either by communication with debtors or by adequate alternative procedures, he should qualify his report.

COMMITTEE ON ACCOUNTING AND AUDITING RESEARCH 1957-58

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Edited by GEOFFREY H. WARD, C.A.

Practitioners Forum

More on Staff Manuals

The March column commented on current American and Canadian practice in the use of office manuals. This month we will consider a few types of manuals and discuss alternative courses of action available.

Audit Manuals

The main problem to be faced in preparing audit manuals is to decide on the scope of the coverage. Naturally, there is no need to repeat material that can be found readily in any of the published textbooks. On the other hand, it is desirable to indicate the firm's policy in areas where the accepted procedure varies. Perhaps if one were to think of auditing under the headings "what", "why", and "how", a firm's manual might deal specifically with "how", cover "what" adequately, but leave the explanation of "why" to the textbooks.

A partner in a national firm says that manuals do not lead to rigidity in auditing techniques. They are no more stifling than textbooks. He also believes that manuals, in addition to setting forth the procedures to be followed, should explain "why" because students will do better work and will progress more rapidly when they understand the reasons for the procedures they are carrying out.

Typing Manuals

Very few firms, even among the larger ones, have detailed typing manuals. Probably the simplest method of obtaining typing uniformity is to prepare several specimen sets of financial statements illustrating different types of statements and methods of presentation.

The issuance of specimen or model statements has been found quite effective. They will be followed carefully by audit staff, whereas several pages of typewritten instructions describing the form and content of statements will not register nearly as well. In "Practitioners Forum" in *The Journal of Accountancy*, May 1957 is a report on the use of a "Standard Report Form Kit". Each year certain clients' statements are chosen for special care in preparation. Additional copies of these reports are distributed to the staff as a model. By selecting a representative variety, these provide adequate flexibility. Most important, the extra cost is negligible as the procedure involves little more than extra care in doing work which has to be done in any case.

Staff Manuals

The preparation of office or staff manuals seems to be most common. Apparently most firms find that their established routines, for such everyday practical matters as preparation of timesheets, filing and recording one's whereabouts, require clarification by the issuance of written procedures. As they concern all the staff this is understandable. Our firm's manual on "Office Procedures" includes the ten sections which may be

considered generally representative: responsibilities and duties of staff; hours worked, expenses and timesheets; conditions of employment; notebooks — list and use; data re firms and personnel; library and pamphlet list; monthly allocation reports; status of work reports; seasonal peaks; filing and stationery.

Cost of Manuals

If calculated at standard rates for time charged to clients, the cost would appear to be very great. However, the actual cash outlay is much less, as in practice manuals are usually prepared through extra effort on the part of the partners. Accordingly, the cost problem is not insurmountable.

Several of this department's correspondents have suggested that the Canadian or Provincial Institutes might prepare a set of standard manuals. In this way, the cost would be spread out over a large number of members and some standardization of procedures among firms would be obtained. Of course, each firm would be free to make changes for its own use. However, some advantages would perhaps accrue from standardization. Particularly if relations with clients and staff were made more uniform, this would tend to raise the overall level of the profession's conduct and practice.

Small Firms

Practical experience has shown that one of the main reasons for having office manuals is to obtain uniformity. In the small firm, this is not a problem as usually a partner personally does a large part of the work, prepares the report and handles the discussions with the client. When only a few partners are involved they can keep one another informed of all that is going on. The advantages of manuals in these circumstances are offset by the main disadvantages, i.e. the cost and practical difficulty of preparing manuals and keeping them up to date.

There are other disadvantages, too. Even with a good manual, it is essential to keep prodding the staff to obtain uniformity. There is the fear of restricting initiative and the need for different forms or procedures in those situations where the models are not appropriate. This line of reasoning leads to the conclusion that small firms with only one office do not need a comprehensive manual.

One exception to the general rule that the larger the firm the greater the need for a staff manual is perhaps in the stenographic situation. A firm with several stenographers can quite easily integrate a new one into the firm's routines, as the others are able to train her. However, a firm with only one stenographer has a serious problem when she leaves. It is very costly for the partner personally to give her replacement detailed instructions. Accordingly, a comprehensive and detailed stenographic manual would be valuable to the small firm. The sole practitioner is in a better position regarding a new student, as the latter is taking the Institute Course of Instruction, and there are usually senior students available to help in his training.

Are Manuals Needed?

The advantages of office manuals are generally recognized. They are a useful training aid that will hasten the development of efficient staff and save training costs. They will assist in maintaining a high quality of work and make possible greater delegation,

which is so necessary in a large firm. As the size of an organization and the number of branches grow, the need for an office manual increases correspondingly. Uniformity and control can be met most practically with the help of standard procedure manuals. Accordingly most of the larger and multi-branch firms have them.

The small public accounting firm has less need for office manuals; nevertheless, there are many benefits to be obtained even for them. In particular, a good manual enables the practitioner or partner to delegate work more extensively, train his staff more efficiently and economically, and generally do a better job for his clients. As a result he has a more profitable practice and is in a better position to increase his clientele. This line of reasoning leads to the conclusion that small firms do need manuals.

What Alternatives Are Available?

A small office which has decided that the preparation of a set of manuals is not practicable will want to consider the alternative ways of achieving its objectives. One standard procedure is for the reviewer of files to make constructive comments regarding the work done so that the working papers will provide a useful guide the following year. Another is to hold regular staff meetings during slack periods to discuss actual statements and working papers. Of course, these methods can also be used by firms that have manuals.

The need for an office manual depends largely on the amount of supervision which the partners can exercise. Some firms direct their efforts at training partners and other C.A. staff members who will be supervising the work to follow the firm's ideas, policies and procedures.

The sole practitioner may prefer to devote time to attending group meetings with other accountants. He can perhaps gain more benefit from these discussions than he could from preparing a staff manual. His memoranda could be limited to the few things he feels must be in writing for the guidance of his staff. Instructions could be developed gradually, one item at a time. Clients' statements could be used as models. Perhaps if all these suggestions were followed, office manuals would not be a problem for the small firm.

A panel member, with a firm which was formerly local but has now merged with a national one, feels that the sole practitioner lacks the advantage of being able to talk over administrative problems with partners. He should encourage his Institute or Chartered Accountants Club to carry programs in this area as well as in technical fields. He can gain much from round table discussions with his fellow members. He will find that many of his problems are common to all. In many cases, he will be reassured because his solution is in accordance with what is being done by others. In some cases, he will find that another practitioner has a very good solution to what has troubled him. Such discussions could lead to sources of material for manuals.

What Are Your Views?

I would like you to write me and say if you feel that it would be helpful to publish in this column specimen material from actual staff manuals. Your comments on this and other subjects are welcome at all times.

Legal Liability

In *The Secretary*, May 1954, Mr. Raymond Walton, M.A., B.C.L. com-

ments on "Qualifications of Legal Liability". "Do right," says the old adage, "and fear no man; don't write, and fear no woman." There are four phrases which may be used in correspondence with a view to limiting one's legal liability in the event of any future lawsuit. They are "*subject to contract; without prejudice; private and confidential;* and *E. & O.E.*". Use of these safeguards might well have application in business dealings in which accountants sometimes become involved.

When negotiating, say for the purchase of a practice, the problem arises as to how to negotiate in such a way that at no stage short of the final and complete contract is a party who decides that he does not wish to proceed any further, bound to go on. The use of the phrase *subject to contract* on any written material relative to the purchase is the safest and best tried method of arriving at an agreement in principle, without being in anyway committed to a final course of action.

The use of the phrase *without prejudice* is much more common. However, there are some pitfalls to be avoided. This phrase is used to make it safe, when conducting negotiations, to make concessions from what are one's strict legal rights, without later having these concessions used against one as evidence in the event the negotiations break down. When a particular course of negotiations is initiated by a letter headed "without prejudice" the safeguard is usually obtained. However, there must be a dispute in evidence. For example, a letter which said "without prejudice, pay me $100 or I will accuse you of a serious crime" clearly provides no protection. Nor can one party impose upon the other, who refuses to hold any further correspondence with him, any restrictions as to how he uses any letters he receives.

The words "private and confidential" which are used so freely in modern correspondence offer little legal protection. The use which a person makes of information contained in a letter addressed to him, however marked, is primarily his own affair.

The formula "E. & O.E.", *errors and omissions excepted,* — more commonly encountered on invoices or bills of account, leaves an opening for correction of errors in a bill rendered. However, if an acknowledgment of a debt has been clearly stated and accepted without any qualification whatsoever then it is questionable whether the previous use of "E.&O.E." will provide an out.

To sum up then, these four common forms of qualification, properly used in the right places may produce the desired effect. Used out of turn in the wrong places, their usefulness ceases. "Businessmen cannot expect to keep their letters out of court by writing 'without prejudice' across them; they might just as well keep their fingers crossed."

PRACTITIONERS FORUM ADVISORY PANEL

G. H. Ward, Toronto (*chairman*), George Abbott, Montreal, R. P. Alger, Calgary, D. B. Davis, Kitchener, A. F. Gosling, Moncton, N. C. Hagan, Moose Jaw, D. A. Ross, Calgary, W. L. C. Wallace, Vancouver.

BY CAMPBELL W. LEACH, C.A.

Tax Review

Benefits to Shareholders

The joint recommendations on the Income Tax Act submitted by the Canadian Bar Association and the Canadian Institute of Chartered Accountants published in the March issue of this journal contain recommendations of considerable interest which should, if adopted, improve further our already well designed Income Tax Act. Of special interest is the plea against widening divergence between business and taxable income which, if continued, will eventually confuse the principle of a tax on income. The subject of non-deductible business expenses has already been well presented and ought now to be considered thoroughly by the legislators as well as the courts. Another point of interest is that accountants and lawyers have seemingly now agreed that advance tax rulings should be issued by the Department of National Revenue and have so recommended.

The first recommendation, concerning loans to shareholders, is perhaps of less general interest, but it does serve to remind one of the interesting and difficult problems which can occur in transactions between a company and its shareholders. Although a corporation is an entity quite separate from its shareholders, it is nevertheless recognized that it has an interest in favouring not only its employees and officers but also its shareholders. As far as officers and employees are concerned, whatever benefits they may receive by virtue of their employment are quite simply and definitely brought into income through the provisions of sections 5 and 25 of the Income Tax Act. As for shareholders, benefits conferred upon them are covered by section 8 which is often overlooked, ignored or misunderstood.

Subsection (1) of section 8 provides for the inclusion in the shareholder's income of any of the following:

a) payments made by a corporation to a shareholder otherwise than pursuant to a bona fide business transaction;

b) the appropriation of funds or property of a corporation in any manner whatsoever to or for the benefit of a shareholder;

c) the conferring of a benefit or advantage upon a shareholder.

Excluded from the above are stock dividends, stock rights and payments made on the redemption of shares, reduction of capital, winding-up or reorganization of the business as these are specifically provided for under section 81 dealing with undistributed income.

The wording of this section is broad enough to embrace almost any transaction between a shareholder and his corporation, even if the person is only a minority shareholder. It is to be noted that under this particular subsection the amount or value of the

benefit must be included in income and is not a dividend, so that the 20% dividend credit will not be available to the individual shareholder.

One very common type of benefit is that which arises from the free use of a dwelling, automobile or other asset, the value of which should be included in computing the shareholder's income. Similarly, if the use of such assets is provided at a reduced price, the difference between the price paid and the value to the shareholder is regarded as income. It should be noted, however, that it is the value to the shareholder that must be included in income which is not necessarily the cost to the company. This is often misunderstood and sometimes produces odd results. For instance, in one particular case, a corporation rented a dwelling which it owned to its principal shareholder at a figure which, after the deduction of taxes, insurance and depreciation, produced a substantial loss in the books of the company. The Minister of National Revenue attempted to assess the shareholder on the amount of the loss incurred by the company but it was proved that the rental paid by him was reasonable in the circumstances and that no benefit was, in fact, being conferred upon him.

Similar problems arise where a company purchases assets from its shareholders at a price in excess of the fair market value. In the case of *Losey* v. *M.N.R.*, the appellant, who had been in business for 18 months, incorporated his business and sold goodwill to the company for some $76,000. It was ruled that the value of this goodwill could not have been much more than $1,000 and the company was thus conferring a benefit upon the shareholder by paying $75,000 too much, which amount was therefore taxable. The reverse situation also creates taxable income in that assets sold by a company to its shareholder or shareholders at less than fair market value confer an advantage upon them which is taxable. In the case of *No. 403* v. *M.N.R.*, a house costing $45,000 was sold to the controlling shareholder for $38,000. The Minister assessed him on $7,000 which he considered to be the value of the benefit. The Income Tax Appeal Board ruled that, on the basis of two independent appraisals giving values of $42,000 and $47,000, the value established by the Minister of $45,000 was reasonable and that a benefit of $7,000 was thus conferred upon the shareholder. Although the value of $45,000 established by the Minister was presumably based upon the original cost of the house, nevertheless, it had to be proved that this was the value to the shareholder.

With respect to depreciable assets that may be the subject of transactions between a shareholder and his company, special problems often arise in that, if they are not dealing at arm's length, the capital cost to the purchaser cannot exceed the cost to the original owner for purposes of depreciation. Thus, if a company sells depreciable assets to a shareholder for his use in a business, the shareholder may not use a capital cost for depreciation purposes of more than the original cost to the company and yet, if the fair market value is greater, a taxable benefit will be conferred upon the shareholder if the assets are transferred at undepreciated capital cost or even original cost — a dilemma indeed! Fortunately, the Department of National Revenue has not as yet seen fit to take advantage of this very far-reaching subsection as far as depreciable property is concerned,

presumably because of the effect of section 20(4) which deals with non-arm's length transfers of depreciable property.

Of course, before subsection 1 of section 8 can be applied, it must be established that a benefit has actually been received by the shareholder. The difficulties which may be encountered in this connection are well illustrated by the recent Income Tax Appeal Board case of *No. 494* v. *M.N.R.* In this case, it was the practice of a private company to make a cash gift of $10,000 to each child of any shareholder upon the occasion of his or her marriage! The son of the appellant received the usual $10,000 on his marriage and the Minister of National Revenue attempted to tax the father, who was a minority shareholder, on this amount. Fortunately for the taxpayer, it was held that no funds or property were appropriated to or for his benefit and that no advantage was conferred upon him, although he must have been gratified to be a witness to the sudden and substantial improvement in his son's financial condition. The Minister also attempted to invoke the provisions of section 16(1), which provide that a payment of money, rights or things made pursuant to the direction or with the concurrence of the taxpayer to some other person for the benefit of the taxpayer or as a benefit that the taxpayer desired to have conferred on the other person shall be included in computing the taxpayer's income to the extent that it would be if the payment had been made to him. However, the Board found that this section did not apply for several reasons, namely:

1. There was no liability actually due to the taxpayer, payment of which he could direct to be made to someone else.
2. The payment was not made pursuant to his direction.
3. The payment was not necessarily made with his express concurrence and that to rule that his acceptance of the company's policy resulted in his being liable for tax under section 16(1) could place directors in an impossible predicament. It was suggested that to accept the Minister's contention would mean that directors could be liable for tax on gifts made to charitable organizations in which they were interested.

It should not be overlooked when weighing the significance of the above that the appellant, although a director, was a minority shareholder and not in a position to control the company.

In contrast to subsection 1, which is so all-embracing and general in purpose, subsection 2 of section 8 is perfectly clear and definite. It provides that where a corporation has made a loan to a shareholder, the amount thereof shall be deemed to have been received by the shareholder as a dividend unless:

a) the loan was made in the ordinary course of its business of which lending money was a part,
b) the loan was made to an officer or servant of the corporation to enable or assist him to purchase a house, an automobile or shares to be issued by the corporation, or
c) the loan was repaid within one year from the end of the taxation year of the corporation in which it was made and the repayment was not made as a part of a series of loans and repayments.

From the foregoing summary of this

subsection, it is evident that all loans to shareholders are treated as dividends unless they meet one of these specific conditions. The 20% dividend credit may be claimed by individuals in respect of such deemed dividends, but no provisions exist for a subsequent deduction from income by the shareholder if the loan is repaid or for a reduction of the company's undistributed income if the loan is not repaid. This makes the subsection a penalizing section as well as one designed to prevent tax avoidance. For example, if a company lends money to one of its shareholders for non-specified purposes and it is not repaid within one year, the shareholder must treat the amount of the loan as a dividend and pay income tax thereon. There is thus no incentive for the repayment of the loan and, although the Act does not specifically permit the company to deduct such deemed dividends from its undistributed income, it may be possible to accomplish this indirectly. For instance, if the loan is not repaid, it would seem logical to treat it as a capital loss or as a disbursement not allowed as a deduction in computing income.

In conclusion, it should not be overlooked that the provisions of both subsections 1 and 2 apply equally to corporate and individual shareholders as well as both resident and non-resident companies. As a result, the consequences of this section can be quite troublesome, especially for non-resident shareholders who are unexpectedly informed that they are liable for the non-resident withholding tax.

THE LAW

Profit Allocation — Again

The federal regulations concerning the determination of gross revenue attributable to a permanent establishment in a province have been amended, as is generally known. The new rules are substantially the same as the former rules for allocating income and now conform with those applicable under the Ontario Corporations Tax Act. The point of shipment basis has now been officially abandoned and the residence of the customer substituted as the point where profits are attributed.

Where merchandise is shipped to a customer who resides in a province in which a permanent establishment is maintained, the gross revenue will be attributed to that province. If no permanent establishment is maintained in the province, the gross revenue will be attributed to the establishment which may reasonably be regarded as having negotiated the sale. Similarly, where merchandise is sold to a customer but shipped to some other person the gross revenue is attributable to the province in which the customer (and not the other person) resides if a permanent establishment is maintained therein or to that establishment which negotiated sale if there is no permanent establishment in the province. In the case of services, the gross revenue is attributed to the province in which they were performed if a permanent establishment is maintained, and if not, to that establishment which negotiated the contract. Gross revenue derived from land or standing timber is attributable to the province in which the land or timber limit is situated. The rules contained in this paragraph are also applicable to individuals.

In the case of corporations which are not resident in Canada but which have permanent establishments in this country, gross revenue and remunera-

tion paid applicable to establishments outside the country are to be excluded from the allocation formula. Technical amendments have also been made to the definition of "permanent establishment". These amendments provide that a branch or other fixed place of business or a stock of merchandise must belong to the taxpayer in order to constitute a permanent establishment.

Ontario Corporations Tax Act

The Province of Ontario has amended the Corporations Tax Act, 1957 to incorporate certain changes which were previously made by regulation and to change certain aspects relating to permanent establishments, profit allocation and the Quebec abatement, all applicable to the 1957 taxation year.

The definition of a permanent establishment has been amended to delete land, assets in a jurisdiction, an office solely for the purchase of merchandise and a charter or other instrument of incorporation from the definition. However, where a corporation has or maintains any of these, it must pay a special business tax of $50. In addition, the $50 tax applies where a corporation possesses a licence under the Mortmain and Charitable Uses Act, or a licence to do business in Ontario under Part IX of the Corporations Act, 1953.

The rules for the allocation of income have been amended to conform with the new federal regulations discussed above and are, in fact, identical. With respect to corporations that have permanent establishments outside Canada, it is now clear that gross revenue earned and remuneration paid by the foreign establishment is to be excluded from the allocation formula.

The special provincial abatement in respect of Quebec taxes has been changed to provide that the normal allocation credit shall be reduced (or increased) by the difference between:

a) 9% of the Ontario taxable income allocated to that province (Quebec) under that province's own allocation methods.
b) 9% of the Ontario taxable income allocated to that province (Quebec) under the Ontario allocation methods.

Sundry other changes have been made to repeal the special tax on hotels and to allow as deductions from income the cost of utility service connections and expenses of holding companies.

RECENT TAX CASES

Franchises

Mr. Maurice, a sole proprietor, acquired an exclusive franchise for an unlimited period at no cost. Subsequently, a limited company was formed to which the franchise was assigned for $50,000 for a period of ten years. The Exchequer Court ruled that, although the franchise was assigned to the corporation for a limited period, the franchise itself was for an indefinite period and, moreover, could be terminated by either party without cause, by giving 30 days' notice and, therefore, it could not be called a franchise for a limited period. Furthermore, it was ruled that the corporation and Mr. Maurice were not dealing at arm's length at the time the franchise was sold and thus no capital cost allowance could have been claimed because the cost to the original owner was nothing. This was so, even though at the time of sale the solicitors who incorporated the company were its only shareholders, be-

cause, as the law stood in 1952, a corporation could not deal at arm's length with a person by whom it was directly or *indirectly* controlled. There was no doubt that the corporation was indirectly controlled by Mr. Maurice as the solicitors merely carried out his instructions. (*M.N.R.* v. *Kirby Maurice Co. Ltd.* (Ex. Ct.), 58 D.T.C. 1033.)

Securities in Satisfaction of Debt

A builder took first and second mortgages for the balance of sale on houses that he sold to the public but deducted from income 50% of the face value of the second mortgages. Justification for this course of action was purported to be found in section 24 which provides that where a person receives a security or other right in satisfaction of a debt that was then payable, the value of the security shall be included in income. The Appeal Board upheld this contention although it thought that the value placed upon them was too low. On appeal to the Exchequer Court, it was ruled that the debt evidenced by the second mortgages was not "then payable" and could not, therefore, come within the provisions of section 24. All that was allowed was a mortgage reserve under section 85B. It would seem, however, that had the builder sold the houses outright for cash and then accepted second mortgages in satisfaction of the cash payment, the judgment would have been quite different. (*M.N.R.* v. *Burns* (Ex. Ct.), 58 D.T.C. 1028.)

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PROBLEMS AND SOLUTIONS

Solutions presented in this section are prepared by qualified accountants, and reflect the personal views and opinions of the various contributors. They are not designed as models for submission to the examiner but rather as such discussion and explanation of the problems as will make their study of benefit to the student. Discussion of solutions presented is cordially invited.

PROBLEM 1

Intermediate Examination, October 1957

Accounting I, Question 4 (15 marks)

A, B and C operated a partnership in which they shared profits and losses in the ratio 5:3:2. On December 31, 1956, C retired from the firm.

The partnership agreement made the following provisions in the event of the retirement of a partner:

(*i*) Net tangible assets are to be appraised and the partnership records are to be adjusted to reflect the appraised value.

(*ii*) Goodwill is to be calculated by capitalizing, at 20%, the excess of the average annual earnings for the last five years over 7% of the appraised value of the net tangible assets.

A summary of the balance sheet of the partnership at December 31, 1956 showed:

Net Assets		*Capital*	
Net tangible assets	$110,000	Capital – A	$ 54,000
		Capital – B	31,000
		Capital – C	25,000
	$110,000		$110,000

Net profits for the five years ended December 31, 1956 were:

1952	$ 8,800
1953	9,400
1954	11,600
1955	11,100
1956	10,100

Net tangible assets at December 31, 1956 were appraised at $120,000 and C was retired with a cash payment equal to one-half of his adjusted capital and an interest-bearing note for the balance.

On January 2, 1957, D was admitted to the partnership by purchasing

one-quarter of the capital interest of each of the remaining partners as adjusted for appraisal and goodwill on C's retirement. D made a personal payment of $16,000 to A; and a personal payment of $10,000 to B.

Required:

Journal entries, complete with narratives, to record the retirement of partner C and the admission of partner D. (Submit details of your calculation supporting each journal entry.)

A SOLUTION

PARTNERSHIP OF A, B AND C

JOURNAL ENTRIES AS AT DECEMBER 31, 1956

	Dr.	Cr.
(1) Net tangible assets	10,000	
A's Capital account		5,000
B's Capital account		3,000
C's Capital account		2,000

To record increase in net tangible assets from book value of $110,000 to an appraised valuation of $120,000, and to apportion the appraisal increase of $10,000 to the capital accounts of A, B and C on the basis of their profit sharing ratios of 5:3:2

	Dr.	Cr.
(2) Goodwill	9,000	
A's Capital account		4,500
B's Capital account		2,700
C's Capital account		1,800

To record goodwill calculated at a 20% capitalization of the excess of the average annual earnings for the years 1952 to 1956 over 7% of the appraised value of the net tangible assets — calculated as follows:

Total profits for the five years ended December 31, 1956		$51,000
Average annual profit		10,200
7% of appraised value of net tangible assets of $120,000		8,400
Excess of average profits		$ 1,800
Goodwill capitalization of excess at 20%		9,000
Pro-ration of goodwill to partners on basis of profit-sharing		
Ratio: A 5/10	$4,500	
B 3/10	2,700	
C 2/10	1,800	9,000

---

(3) C's Capital account	28,800	
Cash		14,400
Interest-bearing note payable to C.		14,400
To record retirement of C from the partnership on receipt of a cash payment equal to one half of his capital account and an interest-bearing note for the balance.		

(4) A Capital	$15,875	
B Capital	9,175	
D Capital		$25,050
To record transfer of ¼ interest in capital of A and B to D.		

	A	B
Balance sheet December 31, 1956	$54,000	$31,000
Adjustments —		
Appraisal	5,000	3,000
Goodwill	4,500	2,700
	$63,500	$36,700
¼ of each	$15,875	$ 9,175

Editor's Note: The question does not specifically require the first two of the journal entries presented in the solution above, but it does require some form of presentation of the underlying calculations.

PROBLEM 2

Intermediate Examination, October 1957

Accounting I, Question 5 (12 marks)

The bookkeeper of J Co. Ltd. has prepared the following condensed statement of current operations:

PROFIT AND LOSS STATEMENT
for the year ended December 31, 1956

Sales	$1,072,400
Cost of goods sold	854,300
Gross profit	$ 218,100
Expenses	172,360
Net profit	$ 45,740

The president is concerned over the fact that, while sales have increased during the year, the gross profit has decreased from 30% to 20.3% in 1956. He asks CA to check the statement prepared by the bookkeeper.

CA ascertains that the increase in sales was largely due to arrangements made during the year with brokers who were to act as consignment agents. The bookkeeper accounted for consignments as follows:

(i) No entries were made for consignments until consignees sold the goods.

(ii) Sales reported by consignment agents were recorded net, after deducting commission of 20% and expenses averaging 4% of selling price.

(iii) 1956 sales by brokers, as recorded on the books, amounted to $456,000.

(iv) Expenses paid by J Co. Ltd. on unsold consignments were charged to "Consignments Expense Suspense Account". As the consignments were sold, the applicable portion was charged to "Consignment Sales Expense Account". At December 31, 1956 a balance of $2,800 in the "Consignment Expense Suspense Account", representing expenses on unsold consignments, was closed out in error to sales.

Required:

A revised statement of profit and loss for the year ended December 31, 1956 to be presented to the president showing the details of your calculation of the figures included therein.

A SOLUTION

J CO. LTD.

Statement of Profit and Loss
for the year ended December 31, 1956

Sales		$ 1,219,200	
Cost of goods sold		854,300	
Gross profit		$ 364,900	29.9%
Commissions	$120,000		
Expenses	196,360	316,360	
Net profit		$ 48,540	

Calculation of Consignment Sales

Consignment sales as recorded	$ 456,000
Gross consignment sales $\frac{456{,}000 \times 100}{76}$	600,000
Commissions – 20%	120,000
	$ 480,000
Expenses 4%	24,000
	$ 456,000

Calculation of Sales

Sales per profit and loss statement		$1,072,400
Add: Consignment sales — as above	$600,000	
Consignment expense charged to sales in error	2,800	602,800
		$1,675,200
Deduct: Consignment sales as recorded		456,000
		$1,219,200

Calculation of Expenses

Per profit and loss statement	$ 172,360
Add: Expenses as above	24,000
	$ 196,360

Examiner's Comments

The most frequent errors were:

1. To add consignment commission and expense to cost of goods sold instead of to trading expenses.
2. To neglect to calculate the new gross profit percentage.

PROBLEM 3

Final Examination, October 1957

Accounting I, Question 4 (12 marks)

A is considering the purchase of all the outstanding common shares of X Co. Ltd. which was incorporated on July 1, 1952. A has requested CA's assistance in determining whether or not a price of $8.70 per share is reasonable.

The following condensed balance sheet sets out the company's financial position as at June 30, 1957:

X CO. LTD.

Balance Sheet

as at June 30, 1957

ASSETS

Current assets	$ 81,640
Fixed assets as per appraisal June 30, 1957	180,000
Goodwill	10,000
	$271,640

LIABILITIES AND CAPITAL

Current liabilities	$ 31,200
Capital stock:	
Authorized and issued:	
500 4% preference shares of a par value of $100 each, redeemable at 102	50,000
20,000 common shares of no par value	140,000
Appraisal increase credit	30,000
Earned surplus	20,440
	$271,640

X Co. Ltd. has been operating for only 5 years and the annual net profits on operations were as follows:

1953	$ 4,000
1954	8,000
1955	18,000
1956	18,800
1957	19,600
	$68,400

On examination, CA determines that the financial position as presented in the balance sheet and the results of operations as set out above are correct. CA also determines that X Co. Ltd. has paid the dividends on preference shares each year and in addition has paid annual dividends to common shareholders of 65% of annual net profits remaining after the payment of the preferred dividends.

10% per annum is regarded as the average annual earnings on investment for a business of this nature.

If A acquires the shares he will become general manager. This position is now held by one of the present shareholders at an annual salary of $15,000 which is considered reasonable for the duties involved.

Required:

The advice that CA would give A as to the reasonableness of the price of $8.70 per share together with reasons and detailed calculations to support his decision.

A SOLUTION

The price of $8.70 per share appears to be reasonable. It is slightly less than actual book value of the common shares, calculated as follows:

Assets other than goodwill, per books of X Co. Ltd.		$261,640
Less current liabilities	31,200	
preferred share capital (at redemption price)	51,000	
		82,200
Net assets other than goodwill, applicable to common shares		$179,440

$$\text{Book value per share} \quad \frac{\$179,440}{20,000} = \$\ 8.972$$

The price of \$8.70 per share is only slightly more than the capitalized earnings price at an interest rate regarded as average for the industry. Since the company has only been in operation for five years, it is reasonable to assume that its earnings for the first two years are no indication of the long term trend. For the past three years the average annual profit after preferred dividends is \$16,800. The average annual profit per share is

$\frac{\$16,800}{20,000}$ = 84 cents which, capitalized at 10% is \$8.40 per share.

For the most recent year earnings per share were 88 cents, or slightly better than a 10% return on the proposed price of \$8.70 per share. Profits for each of the last two years have increased by \$800 and this increase, when capitalized at 10%, is equal to 40 cents per common share. The trend suggests a rate of return somewhat higher than the average for this type of business.

A may of course make changes in the salary which he will receive as general manager. The present salary of \$15,000, which has been taken into account in determining the present rate of return per share, may make the investment additionally attractive to him.

Examiner's Comments

A considerable number of candidates made involved calculations of "average capital employed" and "super-profits" with no particularly clear object in mind.

PROBLEM 4

Final Examination, October 1957

Accounting I, Question 5 (20 marks)

(a)

S is a married man with two children. His chief source of income is a salary of \$15,000 per annum. In addition to this salary, S had the following investment income during 1956:

Province of Ontario, bond interest	\$4,700
Apartment block, net rental income	4,400
Canada Co. Ltd., preferred share dividend	1,500
Bank deposits, interest	20
Municipal bonds, bond interest	300

S owns an apartment block which contains twelve identical suites. S advises that he occupies one of the suites and pays the same monthly rent as all the other tenants. S pays a caretaker to perform all duties connected with the operation of the block and the caretaker pays full rent for the suite he occupies. The \$4,400 income represents the net profit after all expenses, including the caretaker's wages and depreciation.

In 1950, S contributed capital to a business operated by his brother-in-law in return for which he was made a partner. During the year 1956, the partnership suffered a loss and S was advised by the partnership's accountant that his portion of the loss for income tax purposes was \$2,300.

S owns a dairy farm in the country which he intends to manage when he retires. At present he employs a farm manager and he visits the farm only when on business. The following is a condensed summary of the farm's operations for the 1956 year:

Milk sales		$20,000
Expenses:		
Wages	$14,000	
Depreciation	3,000	
Other operating expense, net	15,000	32,000
Loss for the year		$12,000

During 1956, the municipal bonds, which S had purchased in 1945 for $9,500 plus brokerage fees of $50, were redeemed at par of $10,000. These are the bonds from which S received the $300 interest during 1956.

S has given his wife Government of Canada Bonds every Christmas for a number of years. His wife had no income in 1956 other than the $600 interest she received from these bonds.

S's two children are R, who is 22 and attends university, and M, who is 15 and is still in high school. R worked during the summer months and earned $775 from which no tax was deducted.

S's mother is resident in England. During 1956, he sent her $330 to help supplement her small annuity which was her only other means of support.

During 1956, S made the following donations:

Canadian Red Cross, Toronto	$300
Community Chest, Toronto	500
St. Mary's Church, London, England	100

S made the donation to St. Mary's Church upon the request of his mother and he has a receipt acknowledging the donation as being made by him.

Required:

Your calculation of the taxable income and tax payable by S for the 1956 taxation year.

(b)

S desires to distribute his estate and proposes to make the following gifts during 1957 in cash by liquidating some of his investments:

To his wife	$15,000
To his daughter	1,000
To his son	3,000
To his church	10,000
	$29,000

He will not give his usual Christmas gift of bonds to his wife in 1957. In addition he proposes to give his brother-in-law his equity in the partnership which is valued at $5,000. However, he is having his solicitor make the necessary arrangements so that this gift will not take effect until S's death.

Required:

Your calculation of the total amount upon which S will be subject to pay gift tax in 1957.

Editor's Note: The examination paper presented to candidates contained a "Table of Federal Tax Rates for 1956" which included the following items:

(g) $2,120 plus 33% of the amount by which the amount taxable exceeds $10,000 if the amount taxable exceeds $10,000 and does not exceed $12,000.

(h) $2,780 plus 38% of the amount by which the amount taxable exceeds $12,000 if the amount taxable exceeds $12,000 and does not exceed $15,000.

(i) $3,920 plus 43% of the amount by which the amount taxable exceeds $15,000 if the amount taxable exceeds $15,000 and does not exceed $25,000.

(j) $8,220 plus 48% of the amount by which the amount taxable exceeds $25,000 if the amount taxable exceeds $25,000 and does not exceed $40,000.

A SOLUTION

S

Calculation of Taxable Income for 1956

Salary		$15,000.00
Rental income		
Total net revenue from apartment block	$ 4,400.00	
Less portion applicable to suite occupied by owner (1/12)	366.67	
		4,033.33
		19,033.33
Deduct loss from partnership	2,300.00	
Allowable deduction for farming loss (one-half of loss before depreciation)	4,500.00	
		6,800.00
		12,233.33
Investment income		
Preferred share dividend, Canada Co. Ltd.	1,500.00	
Bond interest – Province of Ontario	4,700.00	
– municipal bonds	300.00	
Interest on bank deposit	20.00	
Income on bonds donated to wife	600.00	
		7,120.00
		19,353.33
Deduct personal exemptions		
Marital status	2,000.00	
Child, 15 years of age	150.00	
Child, 22 years of age, student	400.00	
Mother	330.00	
		2,880.00
		16,473.33
Deduct donations		
Canadian Red Cross, Toronto	300.00	
Community Chest, Toronto	500.00	
		800.00
Taxable income		$15,673.33

S

Calculation of Income Tax Payable for 1956

Income and old age security tax			
On the first $15,000.00		$ 3,920.00	
On the next 673.33 at 43%		289.53	
15,673.33			$ 4,209.53
Surtax on investment income			
Investment income		7,120.00	
Less charitable donations	$ 800.00		
exemptions	2,880.00		
		3,680.00	
Surtax at 4% of		3,440.00	137.60
			4,347.13
Deduct dividend tax credit (20% of $1,500.00)			300.00
			4,047.13
Add excess of son's income of $775.00 over maximum of $750.00 allowed			25.00
Tax payable			$ 4,072.13

(b) S

Calculation of Amount Subject to Gift Tax in 1957

Gifts subject to tax		
Wife	$15,000.00	
Son	3,000.00	
		$18,000.00
Deduct exemptions		
Taxable income, 1956	15,673.33	
Less taxes payable, 1956	4,072.13	
One-half of	11,601.20	5,800.60
Amount subject to gift tax		$12,199.40

Examiner's Comments

1. A large number of candidates omitted to deduct the portion of net profit attributable to the apartment occupied by S himself.
2. The other common errors were treating the donation to the church in England as allowable, and failing to add back to the husband's income the $600 interest received by the wife on bonds which he had given to her.

PROBLEM 5

Final Examination, October 1957
Auditing I, Question 2 (14 marks)

You are in charge of a discussion group for primary students on the subject of the auditor's report. Each student has been given a copy of the report suggested in Bulletin No. 6 by the C.I.C.A. Committee on Accounting and Auditing Research for use in reporting on the financial statements of companies incorporated under the Companies Act (Canada). During the course of the discussion, you are asked the following questions:

(*i*) Is the examination referred to in the expression "I have examined the balance sheet of the .... Company Limited as at ....19..... and the statements of profit and loss and surplus for the year ended on that date" an exact and complete verification of the figures in the statements?

(*ii*) What is the significance of the expression "My examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances"?

(*iii*) What is meant by the term "tests"?

(*iv*) To what extent does the auditor have a free hand in deciding upon the scope of his examination?

(*v*) What is the significance of independence of the auditor in relation to audit work?

Required:
Your answer to each of the above questions.

A SOLUTION

(i) The examination referred to is such an examination as the auditor considers sufficient to reveal any material discrepancies if they exist, and to satisfy himself that the financial information is fairly presented in all material respects. This kind of examination need not amount to an exact and complete verification of the figures in the statements.

(ii) The expression signifies the auditor's acceptance of responsibility for the kind and amount of work done, and is the means by which he puts himself on record as having reviewed the system in general and undertaken detail examination according to his judgment.

(iii) The term "tests" in this usage refers to the detailed audit procedures, such as checking and spot testing or test checking, where a portion of work is examined as a basis for opinion on the whole of a particular phase of operations.

(iv) The auditor determines the scope of the examination necessary to express an unqualified opinion. The actual scope of his examination depends to a great extent on his evaluation of the effectiveness of a client's internal control. If control is good in concept and well carried out in practice, the extent of the checking which will be necessary is much

less than if control is non-existent, inadequate or poorly implemented. An auditor may accept an audit engagement in which the scope of his examination is restricted but he should then qualify his opinion so that those reading the audit report may know to what extent he is able to express an opinion and accept responsibility.

(v) Independence is the major factor in audit work. Without it, no value is attached to the performance of an audit or expression of opinion. It is on the auditor's reputation for independence that the public, creditors, and minority interests depend in evaluating statements prepared and presented to them. On its maintenance depends the auditor's professional integrity and prestige and his value to the business community he serves.

THE INSTITUTE OF CHARTERED ACCOUNTANTS

Timetable of October 1958 Uniform Examinations

The Board of Examiners-in-Chief gives notice that the 1958 examinations of the Institutes of Chartered Accountants in Canada will be written according to the following timetable. The morning sessions will be from 9 a.m. to 1 p.m. and the afternoon sessions from 2 p.m. to 6 p.m.

Tuesday, October 14
Morning session — Final Accounting I
Afternoon session — Intermediate Accounting I

Wednesday, October 15
Morning session — Final Accounting II
Afternoon session — Intermediate Accounting II

Thursday, October 16
Morning session — Final Accounting III
Afternoon session — Intermediate Auditing I

Friday, October 17
Morning session — Final Auditing I
Afternoon session — Intermediate Auditing II

Monday, October 20
Morning session — Final Auditing II

Tuesday, October 21
Morning session — Final Auditing III

BY PETER C. BRIANT, M.B.A., C.A.

Current Reading

MAGAZINE ARTICLES

ACCOUNTING

"THE SOCIAL IMPORTANCE OF ACCOUNTING" by A. A. Fitzgerald. *The Accountants' Journal*, February 1958, pp. 231-233.

Sir Alexander Fitzgerald, chairman of the Australian Commonwealth Grants Commission, rightly accords the accountant a prominent and responsible position in the spectrum of modern business management. He points to the important role played by the accountant in furnishing information for the planning and coordination of the scale and nature of the enterprise; for the measurement of results achieved; and for the taking of corrective action when performance diverges unfavourably from plans.

An additional responsibility referred to by Sir Alexander, and one that is rarely mentioned, is the part the accountant can play in interpreting the word "profit" to the community, in explaining what it is and what it has to do. He urges accountants to challenge the view that profit results from the exploitation of the common man and that profit is not necessary for the working of the economic system. We should, he writes, stress the functions of profit: to compensate for the use of capital; to provide for the steady expansion and maintenance of productive enterprise and of national productive capacity; and to create a cushion against future contingencies.

To Sir Alexander's observations, one might also add that the profit he talks about is *price determined,* not *price determining.* All too often, critics of the free enterprise system regard profit as a component of cost, a view that is harmonious with the economist's conception of *normal* profit, rather than as a reward for doing better. The firm to criticize is not the one that makes a profit, but the one that does not. It is the latter that is wasting economic resources: it fails to use those committed to it efficiently enough to sell its output at current market prices and still have a surplus left over to meet the uses to which Sir Alexander Fitzgerald refers.

"FINANCIAL MANAGEMENT FOR AN ELECTRONIC AGE" by Wilson F. Seney. *Dun's Review and Modern Industry,* February 1958, p. 41 et seq.

Far from being shelved in favour of computers, financial and accounting executives now have opened up before them new vistas stemming from developments in the electronic handling of symbols and figures. As machines take over the drudgery of analysis and problem solving, executives have the opportunity to concentrate on tasks that can be performed only by men and not machines. If they pursue their opportunities intelligently, perhaps credit will go to electronics for improving management practice as well as data processing techniques.

The practice of financial and ac-

counting management is a function of men, not of machines. In the past, the important contributions of executives have been non-mechanical and non-electronic. In the future, both groups of executives will continue to be valuable to business for the same basic reason as in the past: managerial ability.

The financial executive who demonstrates this thesis might be called the non-electronic controller. The success of such a man results largely from a firm grasp of five elements:

1. An understanding of what the real job of a top manager is.
2. Knowing how to work as a member of the management team by making positive contributions to the solution of management problems.
3. Good judgment in providing the information needed by management.
4. Organizing his end of the business to discharge controllership responsibilities.
5. Skilful handling of both his own working relationships and those of his subordinates.

"SPEEDING-UP INTERIM CLOSINGS AND REPORTS." Accounting Practice Report. *N.A.A. Bulletin, Sect. 3,* March 1958; pp. 22.

This is the fifth in a planned series of Accounting Practice Reports designed to organize and accelerate the exchange of information on industrial accounting practice. Each report is an organized summary of current practice in a limited area of accounting, based on descriptions of current practice provided by N.A.A. members.

The current report reflects the practices of 51 companies in expediting interim closings. Such closings involve bringing transactions of a period, usually a calendar or business month, into summary form on the books. Practically, they also contemplate the immediate transfer of figures to reports to management for the period involved.

The most positive showing of experience with early closings revealed by the 51 reports is a specific indication of time savings achieved. With a few exceptions, all contributors are sure that savings have been made without sacrifice of accuracy and without added costs. A tabular presentation indicates the advance of closings in terms of days.

The practice descriptions indicate that means used to achieve faster savings include:

1. Tightening of procedural steps of the closing.
2. Introduction of better methods.
3. Overcoming obstacles presented by particular classifications of transactions which the companies found difficult of early summarization.

This report takes up the approaches to more rapid closings in the order given above and follows a consideration of these by some attention to reporting devices described as used in connection with early closings. Also presented are answers to the following questions: What type of companies undertook to alter their practices to achieve earlier closing? Why did they do so? Who took the initiative in the project by which it was accomplished? How long did it take? What are the main requirements to attain program objectives? Are machines necessary?

It is noteworthy that a closing schedule to back up the closing pro-

cedure was found, almost to the extent of a consensus, to be the principal time-saving device, with methods improvement second in importance. Preparing intermediate summaries of accounting data during the month, either by days or weeks, and thus maintaining cumulative figures also received fairly emphatic attention. Simplification of the chart of accounts, as well as the code utilized with it, and deferred processing of detail not needed for principal reports are other practices cited as a means of bringing closings forward. Achieving faster and smoother closings through use of overtime and the training and assignment of personnel constitute the principal organizational factors dealt with in the descriptions. In general, however, only limited use of overtime hours is regarded as appropriate practice. Accounting equipment was utilized in several ways. In a few instances this took the form of a new installation. More often, it meant extended application of an existing system. In still others, it meant realizing potentials of the equipment through better scheduling, as with manual operations.

MANAGEMENT

"An Approach to Internal Profit Measurement" by Joel Dean. *N.A.A. Bulletin,* March 1958, pp. 5-12.

A good internal measurement system should be designed to guide the division or other internal managements whose results are being measured and to assist top management and its staff in their tasks of appraising and guiding divisional performance. Aside from such desirable characteristics as simplicity, these are the only objectives of a measurement system.

For business decisions between alternate ways of doing something, the company wants the division manager to employ the "profit maximization" criterion. But the division manager will make his decisions correctly if he maximizes his operating result, which may be defined as a dollar measure that takes no account of any costs beyond the division's ability to control. The allocation of uncontrollable costs serves absolutely no purpose in helping a division manager with the current economic or managerial decisions he has to make. He cannot change them by any constructive action he can take, and success in covering the allocated portion should not be cause for a lessening of effort on his part. Clearly, the division does not benefit from a system of internal profit measurement that aims at showing conventional net profits at the division level.

The system's functions of giving top management a basis for financial appraisal presents an even stronger case for avoiding the usual net profit concepts. Many of the financial effects of joint costs and common policies cannot be allocated to divisions in any sensible fashion; they need not be allocated for the profit centre to function smoothly. In fact, their allocation only gets in the way of evaluating divisional performance and is likely to distort the primary functions of the profit centre.

The fullest potentialities of internal financial measurement can best be realized by clearly defining the reasons for measuring divisional results and then designing a system with these unique purposes in mind, not by imitating some other currently used reporting systems that were devised at other times for other pur-

poses. A good internal measurement system ought to aim to provide a well-ordered factual summary of current developments and their historical background should make it as easy as possible for management and staff to arrive at their own evaluations of these facts. It should recognize that a well-informed top management will derive little benefit from attempts to substitute a number of conventional and routine calculations for their own good judgment.

MANAGEMENT SERVICES

"MANAGEMENT ADVISORY SERVICES – OPPORTUNITIES AND LIMITATIONS" by Max Block. *New York Certified Public Accountant,* February 1958, pp. 131-141.

The devolopment of management services by accountants may increase the employment of existing management specialist organizations because accountants will increasingly stimulate their utilization by clients. Our relations with other professions and specialized groups will develop a greater intimacy as collaboration and cooperation are increased. These groups, in turn, should advance the cause of the accounting practitioner as they, in their independent activities, recognize the need therefor.

Management services are adjunct services which evidence increasingly greater dimensions and may possibly reach the importance in time, for many practitioners, of the areas of service opened up by the federal income tax law. The traditional accounting services will, however, for a long time, constitute the bulk of the local practitioners' services, and there must be no unwitting relaxation in our devotion to them. They are the foundation pillars of our practice.

BOOK REVIEW

Montgomery's Auditing (8th ed.), by Norman J. Lenhart and Phillip L. Defliese; The Ronald Press, New York; pp. 766, viii; $10.00

Like most Canadian accountants, this reviewer has grown up with one of the editions of this work at his elbow. No book is of greater value as a manual of current practice.

Probably it is unfortunate that the book is entitled "Auditing". The bulk of the work deals with the three subjects, accounting principles, internal control and financial statement presentation. One tends to consult this manual for assistance with accounting or management problems. The two new chapters added in the eighth edition deal with non-auditing subjects, namely taxes and management services.

It is a treatise in auditing, in the opinion of this reviewer, that the chief grounds for criticism can be found. The portions of the book that are devoted to auditing tend to be increasingly overshadowed by the treatment of the non-auditing topics.

For example, one might anticipate considerable emphasis on analytical techniques. Neither the word "analysis" nor either of the phrases "financial statement analysis" or "statement analysis" is listed in the index. There is some brief mention of ratios and trends.

This reviewer is disappointed by the increasingly timid approach to the public accountant's role in preventing and minimizing fraud or error. The book suffers from a basic lack of unity between the detailed treatment and the general introduction summarizing the auditor's approach. The index caption "Fraud and Its Detection" lists a multitude of

detailed references. However, the general summarization invariably uses a negative form of words, for example, "the independent auditor is not indifferent to the possibility that fraud exists". One can imagine the hard-boiled executive retorting, "Good . . . . . I should hope not!"

The book uses the word *fraud* almost as if it meant only "employee dishonesty" or embezzlement. There is no explicit mention of the more serious danger of fraudulent overstatement or understatement of earnings.

There is a genteel understatement of the dangers that face business management in this general area. These are outlined in the chapter on internal control in the following words: "Unfortunately, experience teaches that not every bookkeeper is honest; neither is every workman, storekeeper, salesman or other person who has access to business assets." One is tempted to ask, "Is the patient so ill that we need to whisper quite so softly? Might it not be wiser to ring the alarm-bell and spell out the dangers with blunt and simple directness?"

W. G. LEONARD, F.C.A.
Kingston, Ontario.

BOOKS RECEIVED

"PRACTICAL FINANCIAL STATEMENT ANALYSIS" (4th Edition) by Roy Foulke; McGraw-Hill Company of Canada Limited, Toronto; pp. 712; $10.50.

SHORTER NOTES

"THE RETURN ON CAPITAL CONCEPT" by I. W. Keller. *N.A.A. Bulletin*, March 1958, pp. 13-21.

The use of return on capital employed as a common yardstick for internal profit measurement and appraisal is discussed and illustrated. Conceding that no ratio can be substituted for managerial judgment, the author argues that the return on capital formula is the best measure yet developed to assist management in its task.

"PROFITABILITY INDEXES FOR CAPITAL INVESTMENT" by Joel Dean. *The Controller*, February 1958, p. 64 et seq.

After outlining a comprehensive program of capital management, the author sketches four main phases of rationing: foresight; measurement of economic worth of capital proposals; screening and selection; and follow through.

Four candidate yardsticks of investment desirability are then compared and appraised: necessity – postponability; payback period; level book rate of return; and discounted cash flow rate of return. In terms of requirements listed by Dean, the last yardstick makes almost a perfect score. The application of the selected yardstick is the final topic taken up.

"ACCOUNTING IN TRANSITION" by William Werntz. *The Journal of Accountancy*, February 1958, pp. 33-36.

A critical analysis of the main points in the most recent statement of accounting and reporting standards of the American Accounting Association. The 1957 statement is compared with those of earlier years, and is discussed in relation to accounting practices that have been given the stamp of approval by the American Institute's committee on accounting procedure, of which Mr. Werntz is the current chairman.

"INTERNAL AUDITING – A STATEMENT OF BASIC PRINCIPLES AND CONCEPTS" by United States General Accounting Office. *The Internal Auditor*, March 1958, pp. 13-25.

This is a brochure published by the U.S. General Accounting Office setting forth its views on the role of internal auditing in government operations. In recent years, internal auditing has received greater recognition and acceptance by the government agencies in the United States.

NEWS OF OUR MEMBERS

British Columbia

J. C. Yolland, C.A. announces that he has acquired the interest of A. J. Shankland, C.A. in the accounting practice formerly conducted under the firm name of Campbell, Shankland & Yolland, Chartered Accountants. Henceforth the practice will be conducted under the firm name of Campbell and Yolland, Chartered Accountants, with offices in Nelson and Trail.

Cowan & Cowan, Chartered Accountants, announce the merging of their practice with that of Berhard Fahy, C.A. Henceforth the practice will be conducted under the firm name of Cowan & Cowan, Chartered Accountants, with offices at 717 West Pender St., Vancouver 1.

W. D. Alexander, C.A. has been appointed treasurer of Inland Natural Gas Co. Ltd., Vancouver.

Manitoba

W. D. Love & Co., Chartered Accountants, announce the removal of their offices to 302 Western Savings Bldg., 280 Smith St., Winnipeg 1.

McDonald, Currie & Co., Chartered Accountants, Winnipeg, announce the admission to partnership of Donald McL. Gordon, C.A.

Ontario

Smith, Winston, Wolman, Roth & Smith, Chartered Accountants, announce the removal of their offices to Continental Companies Bldg., 160 Bloor St. E., Toronto 5.

D. R. McMillan, C.A. has joined Gorrie Advertising Ltd., Toronto, as chief accountant.

Clarkson, Gordon & Co., Chartered Accountants, announce the admission to partnership of D. J. Finley, C.A., E. H. Johnston, C.A. and E. H. Orser, C.A. in their Toronto office and J. F. Robinson, C.A. in their London office.

Quebec

McDonald, Currie & Co., Chartered Accountants, Montreal, announce the admission to partnership of Stewart W. Meldrum, C.A.

Marcel Lemieux, C.A. announces the opening of an office for the practice of his profession at 1485 Blvd. de l'Entente, Quebec 6.

Wendell F. White, C.A. has been appointed controller of Hollinger-Hanna Ltd., Montreal.

Clarkson, Gordon & Co., Chartered Accountants, Montreal, announce the admission to partnership of J. Carriere, C.A.

Bringloe, Watt & Co., Chartered Accountants, announce the removal of their offices to Rm. 305, 5165 Sherbrooke St. W., Montreal 28.

The editor welcomes information for this column. News of members and provincial Institutes' activities received up to and including the 13th of the month will appear in the following issue of the journal.

INSTITUTE NOTES

VANCOUVER STUDENTS SOCIETY

At the executive meeting of the Vancouver Students Society on March 13 the following officers and committees were appointed for the 1958-59 year: president, Colin Pew; vice-president, Norman MacKinnon; secretary, Allen Baxter; treasurer, Ralph Carle; public relations, Jack Rooney and Dave Gerow; education, Richie McCloy and Al Rosen; entertainment, Norm MacKinnon, Bob Brawn and John Lactin.

ONTARIO INSTITUTE

Professional Conduct — Pictures — Associates: The Committee on Professional Conduct of the Ontario Institute considers it advisable to draw to the attention of its members two matters that are not mentioned specifically in the rules of professional conduct of the Institute.

First, it is considered objectionable for any member associated with a practising firm or with a business which overlaps the field of public accounting to have his picture included in any advertisement or paid announcement pertaining to such firm or business.

Secondly, it is the responsibility of a member who is associated with non-members in a business which overlaps the field of public accounting to ensure that the non-members understand the limitations imposed on him as a member by the rules of professional conduct, and in particular that his non-member associates should be made aware of the 1952 interpretation by the Council of such rules. This interpretation is published at the end of the Institute's booklet of the by-laws.

Notice: In accordance with by-law 60, notice is hereby given that Benjamin George Campin has been expelled from membership in The Institute of Chartered Accountants of Ontario. The Council ordered the expulsion after a formal investigation of the Council held on March 14, 1958 into a charge that Mr. Campin was unfit to continue a member, having been convicted at Kingston of a charge of theft under section 280 of the Criminal Code of Canada on November 22, 1957.

QUEBEC INSTITUTE

Second provincial conference: With technical sessions scheduled for June 16 and 17, activities of the second annual provincial conference of the Quebec Institute will get under way Sunday evening, June 15 with registration and an informal reception. The conference will be held at Laval University, Quebec, and proceedings will include the 78th annual meeting of the Institute. Members of all Institutes are cordially invited to attend.

Topics being considered for inclusion in the program include problems of sole proprietorships and partnerships, estate planning, management reporting, professional ethics and many others. Business sessions will end at noon on Tuesday, and golf and sightseeing will be arranged for Tuesday afternoon.

Cost for the entire conference, including room Sunday and Monday nights and five meals, will be $25.

Convocation: Certificates were presented to 149 successful candidates at the annual convocation of the Institute on March 22 at the Ritz Carlton hotel, Montreal. Cheers resounded in the packed ballroom as Norman Paul LeBlanc was announced as winner of the Governor General's gold medal and C.I.C.A. prize for highest standing in Canada. J. A. deLalanne, president of the Canadian Institute, told the audience that Mr. LeBlanc had qualified for a free trip to the C.I.C.A. conference in September and that, since the conference will be held

in Montreal, he could have his choice of two bus tickets or two one-way fares on the tunnel train from Mount Royal to the Central Station.

George P. Keeping, president of the Quebec Institute, said that demands on and for chartered accountants are greater than ever before and there are no signs of slackening off. He pointed out to the new chartered accountants the advantages of their continuing in practice for at least several years in order to gain the greatest variety of experience.

Members and guests were welcomed by J. Emile Maheu, second vice-president of the Institute.

ALBERTA INSTITUTE

A brief has been submitted by the Institute of Chartered Accountants of Alberta to the Royal Commission on Education appointed by the Government of the Province of Alberta. Representation has been made that the education curriculum should emphasize:

(a) Improvement in the standard of expression and usage of the English language.

(b) Neater handwriting on the part of the students.

(c) Vocational guidance for students planning to enter a professional career to ensure that proper course selection will lead to a senior matriculation standing rather than a high school diploma.

EDMONTON C.A. CLUB

On March 7, a dance held at the Hillcrest Country Club was attended by approximately 40 couples. It was followed by a buffet dinner. This was the first midseason dance held in some time and was received enthusiastically by the members and their companions.

A luncheon meeting at the Corona Hotel on March 20 was highlighted by a talk by William Redpath, branch manager of a national business machine firm, on the subject "Automation — its application to accounting and machine installation". Approximately 75 members and invited senior students and guests were present.

At a recent annual meeting of the Edmonton Yacht Club, new officers installed were commodore Allan McTavish, F.C.A., vice-commodore Gordon McClary, C.A. and sect'y-treas. Walter Howard C.A. Unofficial reports indicate the club has floundered financially but with this executive at the masthead, a new course most certainly will be chartered!

OBITUARIES

THOMAS LOGIE

The Institute of Chartered Accountants of Alberta announces with regret the passing of Thomas Logie of Calgary.

Mr. Logie came out from Scotland at a very early age and spent the rest of his life in Calgary. He became a member of the Alberta Institute in 1942 and was employed as special Excise Tax Auditor in the Department of National Revenue.

Mr. Logie was active in the Masonic Order; the Glencoe Club; Earl Grey Golf Club and Central United Church.

He leaves a wife, two daughters and his parents, to whom sincere sympathy is extended.

C. G. M. MARROTTE

The Institute of Chartered Accountants of Quebec announces with deep regret the death on January 22nd, 1958 of C. G. M. Marrotte.

Born in 1888, Mr. Marrotte became a member of the Institute of Chartered Accountants of Quebec in 1925 and at that time was associated with the firm of Marrotte & Anderson. In January 1949 he formed the firm of Marrotte & Co. in association with his son and continued this practice until his death.

To his wife and family, the members of the Institute and Council extend their sincere sympathy.

CLASSIFIED ADVERTISEMENTS

All replies to box numbers should be sent to The Canadian Chartered Accountant, 69 Bloor Street East, Toronto 5, Ontario.

Rates: *Positions wanted, $7.00 per column inch; Positions offered, $10.00 per column inch; Open rate, $17.00 per column inch.*

Closing date is 13th of preceding month.

ACCOUNTING PRACTICE WANTED in Montreal by purchase or succession agreement. Box 766.

WANTED: Purchase of a small accounting practice in Toronto area. Box 763.

ACCOUNTING PRACTICES WANTED: Small or medium-sized, Toronto and surrounding area with radius of 50 miles. Box 772.

WANTED: Growing medium-size industrial company in Toronto requires comptroller with experience in cost accounting and taxation. C.A. or C.P.A. preferred. Opportunity for advancement. Write stating qualifications, experience and starting salary required to Box 770.

CHARTERED ACCOUNTANT, with Bachelor of Commerce degree, municipal and insurance experience, age 31, requires position in Toronto area. Box 767.

CHARTERED ACCOUNTANT, B.Comm., aged 33, with eight years of diversified public accounting and Federal Taxation Division experience desires position with industrial or professional firm. Box 771.

PAKISTAN CITIZEN, age 23, university graduate (B.Comm. with major in a/c) seeks articled-studentship with C.A. firm. Exemption from F.Y. course and reduction in articles by one year obtainable (as to Canadian Arts graduate). Two years post-graduate a/c experience. Adequate allowance expected (About $138 p.m.). Available by plane (own expense) in 10 days. Please write: M. M. Khan, Daem-Manzil, Hashimgazdar Road, Karachi — 1.

C.A., 34, desires challenging industrial position in suburban Toronto. Experience includes over two years as general accountant and assistant office manager in industry, over eight years in public accountancy and a year with Income Tax Dept. Box 769.

C.A. STUDENTS: We require junior and intermediate students who are interested in gaining experience in a well-established firm in Kingston, Ontario. Reply in confidence to: Matthews Brothers, Partridge & Co., Chartered Accountants, P.O. Box 64, Kingston, Ontario.

SAINT MARY'S UNIVERSITY, Halifax, invites chartered accountants who hold a university degree to apply for a full-time position on its Commerce Faculty. Qualifications and experience will determine salary and status. Direct correspondence to the Dean of Commerce.

RECENT GRADUATE REQUIRED for chartered accountant's Toronto office. Box 768.

POSITION WANTED: Chartered accountant, age 52, Scottish training, five years Canadian experience (mining, commercial and professional) seeks post with small/medium company in Central or Southern B.C. Box 764.

CHARTERED ACCOUNTANT, 28, available for per diem work in metropolitan Toronto. Box 765.

CHARTERED ACCOUNTANT with eight years diversified industrial experience seeks supervisory position with a progressive company. Box 773.

CHANGE OF ADDRESS

Members and students who change their address and advise The Canadian Institute of Chartered Accountants of such change should also notify their own provincial Institute.

BARRISTERS AND SOLICITORS

McLAUGHLIN, MACAULAY, MAY & SOWARD
Barristers and Solicitors
302 Bay Street - - - - - - Toronto 1, Ont.

WRIGHT & McTAGGART
Barristers and Solicitors
67 Yonge Street - - - - - Toronto 1, Ont.

BEAULIEU, BEAULIEU & CASGRAIN
Barristers and Solicitors
Kent Building, 10 St. James Street East - Montreal 1, Que.

COMMON, HOWARD, CATE, OGILVY, BISHOP & COPE
Barristers and Solicitors
Royal Bank Building - - - - Montreal 1, Que.

DIXON, SENECAL, TURNBULL, MITCHELL, STAIRS, CULVER & KIERANS
Barristers and Solicitors
Bank of Canada Building - Montreal 1, Que.

PHILLIPS, BLOOMFIELD, VINEBERG & GOODMAN
Barristers and Solicitors
464 St. John Street - - - - - Montreal 1, Que.

STIKEMAN & ELLIOTT
Barristers and Solicitors
505 Bank of Canada Building - - Montreal 1, Que.

MacPHERSON, LESLIE & TYERMAN
Barristers and Solicitors
2236 Albert Street - - - Regina, Sask.

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